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ABSTRACT

Hearings on the effects of the Reagan Administration's fiscal year 1984 budget on higher education are presented. The presidents of three leading research universities and the president of the Association of American Universities (AAU) describe the effects of reductions in federal funding for education, research, and development on the country's ability to compete in an international marketplace. The relationship of higher education and innovation to the nation's economy is also addressed. The chairman of the National Governors' Association (NGA) and three governors representing the NGA share their organization's official response to the administration's 1984 budget. The following three propositions are addressed: (1) programs aimed at increasing the volume of research simply by raising budgets for the purchase of research will fail, unless attention is also paid to the health of universities; (2) weakness at any level of education will eventually undermine quality at all other levels; and (3) science cannot be force fed into useful technology. Appended materials include: executive summaries of the two reports--"The Scientific Instrumentation Needs of Research Universities" and "The Nation's Deteriorating University Research Facilities"; and data and narrative materials submitted by the NGA. (SW)

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HIGHER EDUCATION AND INNOVATION IN THE U.S. ECONOMY
AND PRESIDENT'S FISCAL YEAR 1984 BUDGET:
PERSPECTIVE FROM THE STATES

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HEARING
BEFORE THE
TASK FORCE ON ENERGY AND TECHNOLOGY
AND THE
TASK FORCE ON EDUCATION AND EMPLOYMENT
OF THE
COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES
NINETY-EIGHTH CONGRESS

FIRST SESSION

MARCH 1, 1983

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HIGHER EDUCATION AND INNOVATION IN THE U.S. ECONOMY AND PRESIDENT'S FISCAL YEAR 1984 BUDGET: PERSPECTIVE FROM THE STATES

TUESDAY, MARCH 1, 1983

HOUSE OF REPRESENTATIVES,
TASK FORCE ON ENERGY AND TECHNOLOGY
AND
TASK FORCE ON EDUCATION AND EMPLOYMENT,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task forces met jointly, pursuant to notice, at 2 p.m., in room 210, Cannon House Office Building, Hon. Timothy E. Wirth (chairman of the Task Force on Energy and Technology) presiding.

Mr. WIRTH. The Budget Committee task force should come to order. As you know, there is a very important Democratic caucus of the Budget Committee going on right now, and we look forward to a resolution of the budget by Easter. We still have Members out.

This afternoon, we will be hearing from leading university presidents about the effects of the administration's fiscal year 1984 budget on our economy and society.

The presidents of three leading research universities and Robert Rosenzweig, the president of the Association of American Universities, are testifying today and are in a unique position to describe the effects of reductions in Federal funding for education, research, and development upon our country's ability to compete in an international marketplace.

There is an important, but little noticed, relationship between our current economic problems and the neglect universities have borne in recent years. Investments in university research and development are among the most important that we can make in our economic future, for they can spark innovations leading to increased productivity and economic growth.

Real supply-side economics means investing in our people and the facilities and equipment that they need to turn good ideas into inventions and jobs.

For example, one University of Pennsylvania study recently found that fully 40 percent of increased productivity over a 20-year period is due to new technology and information.

Research and development investments are the seed corn which can lead to a harvest of new inventions and economic growth. We have neglected this seed corn in recent years.

Federal investment in university R&D plant fell in adjusted 1972 dollars, from more than \$211 million in 1966 to less than \$16 million today. The effect of this neglect is profound, from outmoded laboratory facilities and obsolete equipment to shortages of experts in key fields upon which future economic growth relies.

Today we will have the opportunity to explore the relationship of higher education and innovation, the effects of the administration's 1984 budget proposals on university research, and, most importantly, some potential solutions.

Our second panel is composed of three distinguished Governors, representing the National Governors' Association. They will share with us their organization's official response to the administration's 1984 budget, which they voted on but a few hours ago.

Last year at this time, we heard a great deal about the so-called New Federalism. What originally sounded like a needed review of which level of government could most appropriately handle which public services, unfortunately, turned out to be something very different—an effort to transfer responsibilities wholesale to States, without the necessary funding for States to fulfill these large, new obligations.

We are all familiar with the State funding crisis, and we will hear more about that this afternoon.

At this point, I would then like to introduce our first distinguished panel, President Frank H. T. Rhodes, of Cornell University; William C. Friday, the president of the University of North Carolina; Robert L. Sproull, the president of the University of Rochester; and Robert M. Rosenzweig, the president of the Association of American Universities and the new president of AAU.

Dr. Rosenzweig, perhaps you, as the convenor of this august panel, might like to start, and then proceed as you all see appropriate, and we will include your statements in full in the record.

STATEMENT OF ROBERT M. ROSENZWEIG, PRESIDENT, ASSOCIATION OF AMERICAN UNIVERSITIES

Mr. ROSENZWEIG. Thank you, Mr. Chairman.

I am pleased to say that my colleagues and I are here on behalf not only of the Association of American Universities, but also of the National Association of State Universities and Land Grant Colleges, and the American Council on Education, a group of organizations whose members comprise substantially the total of the higher education fundamental research community in the United States.

We appreciate the opportunity you have given us, Mr. Chairman, to spend some time in conversation with you about the renewed national interest in science, technology, and education.

The comparative inattention to those matters in recent years has been both the symptom and the cause of some of the ailments from which we are now suffering, so there is reason to be hopeful about the current rush of interest.

That interest gives us all an opportunity to act wisely; it by no means guarantees that we will do so. Your willingness to devote time to thought, as a precondition for action, is further reason for optimism.

My purpose at the outset is to sketch briefly the theme that holds together our presentation, and then to identify the elements of the theme which each of my colleagues will address.

Our central message is a simple one. It is that there is no part of the complex social network that links education, science, technology, and industry that is wholly independent of the other parts of the network.

The political, social, and economic arrangements of American life sometimes tend to disguise that fact. Our political arrangements fragment the responsibility for the various parts of the educational system; the high value we place on private activities for public purposes further masks the underlying unity of the purposes being pursued; and our historic aversion, as a Nation, to central economic planning means that connections between economic institutions and educational institutions tend to be ad hoc and improvised.

These are central features of our society. They have served us well; they will and should persist. They should not, however, lead us into errors of policy where error is avoidable.

In the subject before us today, it is our contention that efforts to bring science and technology to the service of economic growth will be incomplete and less than fully effective unless they address all of the elements of the network that will make that possible.

Specifically, we offer the following propositions for your consideration:

First: Programs aimed at increasing the volume of research simply by raising budgets for the purchase of research will fail, unless attention is also paid to the health of universities in which most basic research is done in this country.

We are using physical and human capital created in the 1960's. Equipment and facilities for research are old and obsolete, and the next generation of scientists and scholars will be less good than the present one unless we restore incentives to bring an adequate share of the best talent into advanced study.

Second: Weakness at any level of education will eventually undermine quality at all other levels. Undergraduate education both supplies graduate study and depends on the supply of students from the secondary schools.

The schools, for their part, will be no better than the quality of the teachers trained in the colleges and universities and the quality of curricula created in those institutions.

Third: Science cannot be force fed into useful technology. Public policies that fail to account for the rhythm of research, that try to direct research to areas that seem of short range commercial interest, that prematurely push research and the exploitation of research too close together will fail.

It is usefully humbling to remember that no effort undertaken 15 years ago to support commercially applicable basic research would have found molecular biology to be very promising.

Fourth: The Federal Government must and will remain the chief underwriter of basic research and its attendant needs. The States will remain the chief underwriter of the health of elementary and secondary education.

The great trick, as always, is to find ways to cross those lines in ways that make the necessary connections while protecting the integrity of all parties.

All of these matters, Mr. Chairman, will be found in the panel's opening remarks. President Sproull will begin with some observations about the nature of the national research agenda.

President Rhodes will talk about the underpinnings of research—facilities, equipment, and graduate training.

President Friday will address issues of undergraduate and secondary education.

Finally, I shall speak briefly about the connections among research and education and industry. At the completion of these brief presentations, we hope our conversation will begin. Thank you, Mr. Chairman.

[The prepared statement of Mr. Rosenzweig follows:]

PREPARED STATEMENT OF ROBERT M. ROSENZWEIG

Mr. Chairman and members of the committee, we appreciate the opportunity you have given us to spend some time in conversation with you about the renewed national interest in science, technology, and education. The comparative inattention to those matters in recent years has been both a symptom and a cause of some of the ailments from which we are now suffering, so there is reason to be hopeful about the current rush of interest. That interest gives us all an opportunity to act wisely; it by no means guarantees that we will do so. Your willingness to devote time to thought, as a precondition to action, is further reason for optimism.

My purpose at the outset is to sketch briefly the theme that holds together our presentation and then to identify the elements of the theme which each of my colleagues will address. Our central message is a simple one. It is that there is no part of the complex social network that links education, science, technology, and industry that is wholly independent of the other parts of the network. The political, social, and economic arrangements of American life tend to disguise that fact. Our political arrangements fragment the responsibility for the various parts of the educational system; the high value we place on private activities for public purposes further masks the underlying unity of the purposes being pursued; and our historic aversion to central economic planning means that connections between economic institutions and educational institutions tend to be ad hoc and improvised.

These are central features of our society. They have served us well; they will and should persist. They should not, however, lead us into errors of policy where error is avoidable. In the subject before us today, it is our contention that efforts to bring science and technology to the service of economic growth will be incomplete and less than fully effective unless they address all of the elements of the network that will make that possible. Specifically, we offer the following propositions for your consideration:

1. Programs aimed at increasing the volume of research simply by raising budgets for the purchase of research will fail unless attention is also paid to the health of universities, in which most basic research is done in this country. We are using physical and human capital created in the 1960's. Equipment and facilities for research are old and obsolete, and the next generation of scientists and scholars will be less good than the present one unless we restore incentives to bring an adequate share of the best talent into advanced study.

2. Weakness at any level of education will eventually undermine quality at all other levels. Undergraduate education both supplies graduate study and depends on the supply of students from the secondary schools. The schools, for their part, will be no better than the quality of teachers trained in the colleges and universities and the quality of curricula created in those institutions.

3. Science cannot be forced into useful technology. Public policies that fail to account for the rhythm of research, that try to direct research to areas that seem of short range commercial interest, that prematurely push research and the exploitation of research too close together will fail. It is usefully humbling to remember that no effort undertaken 15 years ago to support commercially applicable basic research would have found molecular biology to be very promising.

4. The Federal Government must and will remain the chief underwriter of basic research and its attendant needs. The States will remain the chief underwriter of

the health and elementary and secondary education. The great trick is to find ways to cross those lines in ways that make the necessary connections while protecting the integrity of all parties.

All of these matters will be found in the panel's opening remarks. President Robert Sproull of the University of Rochester will begin with some observations about the nature of the national research agenda. President Frank Rhodes of Cornell University will talk about the underpinnings of research—facilities, equipment, and graduate training. President William Friday of the University of North Carolina will address issues of undergraduate and secondary education. Finally, I shall speak about connections among research and education and industry. At the completion of these brief presentations, we hope our conversation will begin.

Mr. WIRTH. President Sproull.

STATEMENT OF ROBERT L. SPROULL, PRESIDENT, UNIVERSITY OF ROCHESTER

Mr. SPROULL. Thank you, Dr. Rosenzweig. Thank you, Mr. Chairman, for hearing us out. I've passed out a 1-page outline of my remarks, and I will skip entirely Roman numeral I, which Dr. Rosenzweig has already given very effectively, and part of which is about instrumentation, President Rhodes will do more elegantly and thoroughly than I can.

I would like to say a couple of things about the 1984 budget prospects, and then go into some basic issues.

First, there is progress now, at last, in the 1984 budget, if it survives the legislative process. We have so much lost ground, however, that it is hard to get too excited about the progress that we now see in front of us.

The progress is also rather uneven in the 1984 budget. There are some places, like the NSF, for example, which have very encouraging signs, particularly the young investigator program and equipment program. The size of the increase is projected to be something like 17 percent. All are welcome news and long overdue.

We would like to see the young investigator program and equipment grants be pervasive throughout all the mission agencies in the Federal Government. Each mission agency, it seems to us, ought to be responsible not only for their more directed research and development for their individual needs and mission, but also for maintaining and enhancing the research base and the supply of new trained people that support that mission. We hope that the NSF budget will become a model for that part of the budgets of mission agencies.

The Department of Defense budget presents a special problem this year. As is widely noted, it increases 29 percent in what's called Program Package 6, the RDT&E budget. In fact, the basic research part of that, the 6.1 money, goes up only about 8 percent. Most of the increase then is in the large weapons programs and the advanced development and engineering development associated with them.

We think this is a poor balance. The basic research ought to grow as well. The underpinning, the foundation of that edifice will be shaky, indeed, if we continue to exploit it with large growth in the engineering development and flight development programs, but without providing the underpinnings in basic research.

It's hard to know whether 8 percent even really maintains the status quo because inflation in research equipment and supplies

goes somewhat faster than the well-known indices of cost of living. The 8 percent probably represents a slight amount of real growth, but it is not at all certain.

Furthermore, every year the basic research budget is nibbled away in areas like the 6.1 budget in defense. As the mission agencies meet particular crises and pursue particular opportunities and problems in the applied areas, the basic research area suffers. It is the one area where one plants trees for harvesting in the future. But when one is hardup on any kind of problem, he can let the tree planting go and deal only with the needs of the moment. So, the Defense Department budget presents a special problem this year.

NASA has a different kind of problem, one much harder for me to understand. It calls for very small increases in planetary exploration research and analysis, physics and astronomy research and analysis, and environmental research and analysis.

These are the areas where the universities and the new generation are involved. They are not the areas of the big boosters, et cetera—and they seem to have been cut in order to make room for the Venus radar mapper, or a big new start.

Now, that's a very interesting program, and I don't want to throw any cold water on it, but is unfortunate that in order to start it, money has been pulled away from the seed corn for future space and planetary excellence. So this is a problem.

The biggest single problem, however, is in the NIH budget. It is hard to know, again, what is going on. There is probably about a \$400 million problem there. Probably around like \$330 million will be required just to maintain grants and traineeships at the 1983 level of effort.

The NIH budget actually grows at a rate of 1.8 percent, but the complexity of that budget and its size is such that about \$330 million is required just to meet present costs of doing research. There's an additional problem, and a very mischievous one, in the NIH budget having to do with pool cost that I will come to in a minute.

The pervasive Government-wide problems have to do with protecting the core programs of basic research. As interest blossoms, as it always will in applied research and development, core research programs are threatened.

I will not go systematically through my list in Roman numeral III, but I will make only a couple of comments.

The first has to do with items 4 and 5, the danger that inhouse and national laboratories will dominate growth and attempt to get more effective use of the national laboratories by concentrating them on big machines and concentrating "little science" at universities.

These are recurring problems and opportunities every year. The national laboratories have a structure of their own. They are very important to the country. There is absolutely no question about that. However, when budget dollars are being divided up, frequently, the national laboratories are heard in Washington with a stronger and more effective voice than the demands of what is usually called the "little science" and "little engineering," which are spread throughout the universities and some colleges of the country.

This is a danger that one must always be on the lookout for. Within budget line items, some of the money may go to a national laboratory and some may go to universities. We would urge your attention and the attention of your staff, to the problem of maintaining appropriate balance between these institutions, as you write budget language and as you look at the language of the other committees.

The next thing I want to turn to is the need to reimburse all legitimate research costs. I call this the "OMB disease with the NIH complications." I referred to this a few minutes ago, in talking about the NIH budget.

One of the curious things that NIH has done is to arbitrarily take out, I think it is \$72 million, or 10 percent of the pool cost of the extramural program. This is the program carried out in universities and some research institutes.

Well, on the surface this is an attractive thing for NIH. When you are getting into trouble with your budget and you want to cut someplace, just say, "Well, I'll pay only 90 percent of my bills."

It's a very mischievous thing, however, because universities have to pay our entire electric bill, our entire fuel bill, entire janitor bill, and so on. That's what pool costs are. They are perfectly real costs, they are not slush funds or anything like that.

We could put electric meters on every research room, but that would be in nobody's interest. It would cost a lot of extra money, especially the money to read the meters and read the paper, and pass the paper, and audit the paper, et cetera, that comes out of the meters. So, these costs are pooled and shared, but they are just as real costs as anything else.

They have grown more than direct costs, for the obvious reasons. Fuel costs have gone up faster than other costs. Electricity costs have gone up faster. Additional Federal regulations have required universities to hire additional people. So that part of the cost of doing research has gone up faster than others. That's what has attracted OMB's and NIH's attention. They are still perfectly real costs.

To see how ridiculous it is to simply multiply them by 0.9, one might ask how the National Institutes of Health at Bethesda would get along if they paid only 90 percent of their fuel bill and only 90 percent of their electricity bill.

Another way of looking at it is to suppose the Federal Government, in contracting with industry, tried to do a thing like this. Industry would simply not take the contracts. They have to have their pool costs paid, as well as direct costs of research.

So, that is a degree of mischief that may very well become epidemic. If one can multiply a bill by 0.9 and then pay it, he can multiply it by 0.8 and then pay it, and if NIH can do it, so can NSF, and so can DOD.

It seems like an extremely difficult thing to throw into the cooperative relations between the Federal Government and universities, and I hope a cure can be found for the disease, with the maximum speed. And I would strongly urge your attention to this.

Finally, I go to No. 10, and as I label it on the outline, this is by far the most important single thing, the maintenance of the health and growth of basic research. When all of the stimuli, tendencies

and events are pushing in the opposite direction. One of the principal purposes of basic research is to provide a body of knowledge and a core of trained people that can be exploited in industry. And, in fact, one of the things that we would like to be doing more of, and already are doing a great deal of in universities, is Government-university-industry cooperative projects.

We've learned how to do these. Most of us were doing them long before genetic technology made the newspapers. There's a lot more to be learned. The Federal Government has been very practiced in sponsoring work in the aerospace industry, where the Government, through some Government agency, is the principal customer. But for most of what makes the country competitive with Asian countries and European countries, civilian industry is going to be the user of the research. Therefore, it is in everyone's interest to have graduate students, and even undergraduates at universities, involved in research projects jointly with industry, Government, and the universities.

There's another reason for all of this. Industry finds it very hard, even at current interest rates and with somewhat lowered prospects for inflation, to put its money into research work that will be harvested only in the nineties or the 21st century. Furthermore, no company can harvest all from a research project, a basic research project; not even an industry usually can. It should be a Federal Government responsibility, therefore, to maintain the basic research component, to help the universities to work with industry, to bring on a new generation of young people who can participate strongly in raising the productivity of the country, to develop whole new industries, and to assure the basic economic strength of the country.

I'd like to end at that point, Mr. Chairman. I am prepared to answer your questions.

[The outline referred to by Mr. Sproull follows:]

OUTLINE STATEMENT OF ROBERT L. SPROULL

I. INTRODUCTION

Speaking on behalf of the Association of American Universities, National Association of State Universities and Land Grant Colleges, and American Council on Education.

Congressional intervention in 1982; H.R. 1310.

Instrumentation (more from President Rhodes).

Role of research universities.

II. 1984 BUDGET

Considerable progress.

But so much lost ground that rapid and sustained real growth needed.

NASA Space Sciences budget.

NIH budget a serious problem.

Pervasive problems in invading core programs to undertake new initiatives.

III. IMPORTANT ISSUES FOR 1984

1. Stability of funding; longer term grants more efficient.
2. Reduction of administrative requirements.
3. Raise ratio of expenditures on research to administrative expenditures.
4. Danger that in-house and national laboratories will dominate growth.
5. More effective use of national laboratories by concentrating them on big machines and concentrating "little science" at universities.

6. Export controls of information.
7. Fraud in research.
8. Reimbursement of all legitimate costs; mischief of the "OMB disease with the NIH complications."
9. Encouragement of more imaginative collaboration among Government, universities, and industry.
10. (Most important by far) Maintenance of health and growth of basic research.
 - Nature of the threat; ease with which mission agencies can slide away from basic research to development.
 - International position and dangers.
 - Role that only Government can play.
 - Problems of measurement and of time to assess.

Mr. WIRTH. Thank you very much, President Sproull. I think we ought to finish out and then come back for questions.

We've been joined by Congresswoman Martin, from Illinois, and Congressman Mack, from Florida and, if it's all right with them, we will go through the testimony and then come back for questions.

STATEMENT OF FRANK H. T. RHODES, PRESIDENT, CORNELL UNIVERSITY

Mr. RHODES. Mr. Chairman and members of the task force, my name is Frank Rhodes, and I am president of Cornell University. My colleagues and I value the opportunity to meet with you and to talk about these priorities.

My assignment is to talk to you about the underpinnings of research and graduate education, so far as they affect the Nation's research universities. I want to comment under four specific headings—the Nation's graduate programs and their strength; the career prospects for young faculty members; the research instrumentation needs of universities; and the research facilities needed for basic science programs.

These four aspects are all intimately linked to one another, and they are also, of course, linked to the wider strength and effectiveness of our national scientific and technological enterprise.

First of all, graduate education. Our graduate schools provide the continuing supply of young men and women, with the knowledge and the skills and the perception on which everything else depends—our food supplies, our health, our welfare, our military strength, our cultural life, and our international leadership, as well as our economic competitiveness.

The task, it seems to me, of the Federal Government, is to assure a continuing infusion into our society of these young professionals. In fact, Federal support for graduate education has declined over a period of 15 years, and for a variety of reasons, we are no longer producing the numbers of trained young people that we need in certain critical fields.

Let me give just one example. The total number of students enrolled in doctoral programs in engineering in 1980 was 8 percent lower than it was 10 years ago, in 1970, and up to 50 percent of those who are enrolled in engineering doctorate programs are nationals of foreign countries.

The situation is as serious, or somewhat as serious, in a number of other vital areas of science and technology. And so we ask a re-

renewal of Federal support for graduate training in scientific research.

The Federal support isn't new, and for almost 40 years, it served our Nation well. You, as congressional leaders, have made many of the earlier investments possible. And although the Federal Government remains today a substantial supporter for science, its investment in these core programs designed to strengthen the basic structure of graduate education has greatly diminished.

This is creating very serious problems, and let me, again, give one specific example of the way in which Federal support has led to a decline in numbers.

Federally funded fellowships were a very clear success, and they were an important and, in fact, crucial factor in the choice of careers of many people who are now leaders in our research enterprise.

The number of federally funded fellowships has declined from 51,000 in 1968 to fewer than 10,000 today, and of that total of 10,000, only about 1,500 are awarded to students pursuing advanced work in the sciences and engineering.

And so our request for a major renewal for Federal support is really a reminder of the pattern that we've enjoyed in the past, and it is also, I should add, consistent with the national goals that the President has established for the future.

The administration has proposed significant real increases in total support for research and development, especially in the area of the Department of Defense. That department has proposed to increase its investment in research programs, to develop small new programs of graduate fellowships, and it is undertaking a new 5-year program of \$150 million to improve research instrumentation in universities.

The same kind of progress is seen in the budget request for fiscal year 1984 from the National Science Foundation. We welcome these initiatives. We believe they are major steps in the right direction, but welcome as they are, we believe they are only the first steps toward the problem which is much greater than one that will be solved by the measures now proposed.

They are the first steps, in fact, toward what should be a much more comprehensive Government-wide investment strategy to strengthen the support for the basic sciences. We believe, in fact, that the time has come for the Congress to restore the Federal commitment to graduate education, by having all the major mission agencies of the Federal Government play an appropriate role in graduate education.

We have a model for that in the new fellowship program implemented this year by the Office of Naval Research. That program is offering competitive 3-year fellowships to selected students who will work in areas of science and technology of interest to the Navy.

A number of major private corporations have similar programs, but we believe an even stronger and more effective program would emerge if each of the major mission agencies would provide two kinds of graduate student support, the first, merit-based, portable 3-year awards made to the individual and, second, an equal number

of awards made to institutions who would, in turn, make the awards to students.

We believe the goals should be to support between 1,500 and 2,000 such graduate awards every year.

Let me emphasize, again, that these are not new approaches. They are tried and tested and they have proved effective, and for a relatively small investment, we could produce major results.

Second, let me say a brief word about the need for young faculty members in a number of fields. This is closely linked to the needs of graduate students, but as young Ph. D.'s complete their formal educational training, there are major obstacles to their decision to enter life as university faculty members.

This is partly the result of the difference between faculty salaries in universities and those in industry, and it is partly the result of the obsolescent equipment and inadequate research and teaching facilities in universities.

It is estimated, in fact, that there are 2,000 faculty vacancies which are, at present, unfilled in engineering departments, and the outlook for improvement is bleak. Daniel Drucker has observed that probably only 300 new graduates a year are both capable and available to teach engineering in universities.

The young researchers face barriers not only of incomparable salaries, but also of difficulties in establishing themselves with the equipment necessary to do their work.

A recent study has shown, for example, that whereas 9 years ago it cost \$116,000 to establish a young beginning chemist in the field of organic chemistry, the same person with the same interests, at the same career stage today, would need to spend something like seven times that amount, partly as the result of inflation and partly as the result of growing sophistication of the equipment.

The universities face increasing problems in providing that kind of support. We are, therefore, especially happy, Mr. Chairman, that the NSF has proposed a new program known as the "Presidential Young Investigator's Awards," which would provide some 200 recent Ph. D. graduates with 5-year awards averaging \$30,000 each, these to be matched from private sources and to be used to establish them in new research undertaking during the early years of their faculty careers.

We believe the time has come for other mission agencies of the Federal Government to undertake comparable programs to increase and to strengthen the human resource pool in areas related to the missions that they serve, and we hope that you and your committee will use your influence to encourage that kind of leadership.

Item 3, research instrumentation. Both the quality and the quantity of instrumentation in universities now presents serious problems in both research and graduate education.

A recent study of 15 major research universities showed that the equipment that they use in general is twice the age of that found in comparable commercial labs. That report has been provided to the committee and is attached to this statement.

There are, however, encouraging signs. Investment in research by some Federal agencies has increased significantly. The National Science Foundation, the Department of Defense, and the Depart-

ment of Energy are all either spending or requesting funds to meet this instrumentation need.

Our hope is that you and your committee will support these initiatives as starting points toward a more comprehensive Government-wide reinvestment strategy during the eighties.

We share the view of the administration that obsolete research equipment is one of the major problems facing our research underpinnings. These new university research instrumentation programs are as appropriate as they are vital, but we believe that they have to be seen as just the first step toward a much wider approach to the problem.

And then, fourth, research facilities. These, in many ways, are linked with the problems of research instrumentation, but we are happy to note that recently one agency of the Federal Government has recognized this as a major problem.

The Department of Energy, in its budget request, is requesting \$40 million for upgrading general purpose facilities in which its research is carried out. We believe our leading research universities face just the problems that have been identified by the Department of Energy, and that if we are to continue to serve the Nation in a variety of research programs, we face the same urgent needs to refurbish and reequip the Nation's research facilities.

We believe it is time for each of the leading agencies of the Federal Government to fund the basic research sciences with funds that will rehabilitate university labs and facilities.

And so, finally, we are encouraged by much that the 1984 budget requests contain, especially those of the National Science Foundation, the Department of Energy, and the Department of Defense. They are excellent foundations on which to build.

Our request to the committee is not only to support those initiatives in full, but to build upon them by establishing a new sense of national priority. What we are seeking is bipartisan support for a new initiative across six agencies, to carry out most of the federally sponsored research and graduate education programs.

We suggest to you three aims: One, to create incentives to assure a steady and balanced supply of graduate students, not only in science and technology, but across the whole range of academic disciplines in the universities.

Second, to provide career development awards to encourage talented young men and women, especially those members of minority groups, to pursue careers in university teaching and research.

Third, to provide adequate modern research equipment and facilities, by providing steady funding—and I emphasize the word "steady"—for instrumentation and for rehabilitation of facilities.

Over the years, the Congress has understood the vital link between research and our national well-being. My colleagues and I appreciate the opportunity to urge you to renew that support that will strengthen not only our research programs, but all the foundations of our national life. Thank you.

[Testimony resumes on p. 25.]

[The prepared statement of Mr. Rhodes follows:]

PREPARED STATEMENT OF FRANK H. T. RHODES

Mr. Chairman and members of the Committee:

My name is Frank Rhodes and I am President of Cornell University. I have the pleasure this afternoon of joining with my colleagues in representing the 50 major universities which comprise the membership of the Association of American Universities, plus the following higher education associations: the American Council on Education, the Association of Graduate Schools, the Council of Graduate Schools in the United States and the National Association of State Universities and Land-Grant Colleges. As this Committee knows well, these associations together represent essentially all of the nation's universities and colleges which carry out research and related education programs supported by agencies of the federal government.

My assignment is to present to you our views on the condition of the foundations of our Nation's scientific programs as they are carried out in our leading research universities. In doing so, I will give our assessment of four aspects of contemporary university research and graduate education programs. They are the following:

- The health of the nation's graduate programs
- The career prospects for young faculty
- The research instrumentation needs of universities
- The research facilities needs of basic science programs

These four aspects are intimately linked, not only to each other, but also to the wider strength and effectiveness of our national educational, scientific and technological enterprise.

No quick-fix, or sudden injection of funds into any single are a of this system will provide an effective solution to the problems that confront us. Our task is to build a partnership that will guarantee the vitality of the whole, interlocking system.

Graduate Education

Our graduate schools provide the continuing supply of talented individuals with the knowledge, technical skills and perception on which depend our food supplies, our health and well-being, strength, our cultural life, our international leadership and our economic vitality.

Assuring a continuing infusion into our society of these young professionals is a vital national interest. It stands as the major purpose and justification for the federal government's continuing attention to the health of graduate education and to the need for sustained investment in academic science.

A simple and clear prescription can serve as a guide to national policy with respect to graduate education. It is this: attend to the education and training of the nation's best young minds or fall behind those nations that do. For it is upon this thin stream of highly talented men and women that our national creativity chiefly rests.

Federal support for graduate education has declined over the past 15 years; for a variety of reasons, we have not produced a sufficient number of highly-trained people in a number of critical fields. For example:

The total number of students enrolled in doctoral programs in engineering was 8% lower in 1980 than it was in 1970. Furthermore, in many fields of engineering almost half of those enrolled in these programs were foreign nationals.

The situation is also serious in a number of other vital areas of science and technology.

Federal support for scientific research is not new. For over 40 years it has served our nation well. It was the sudden dependence on university-based science and scientists during World War II that led to a major emphasis on federal support for university programs of research and graduate training. The launching of Sputnik produced a new surge of federal interest in research and advanced education as components of a national effort to regain and sustain American scientific and technological superiority.

Beginning in the 1950's, by a variety of direct and indirect means, the federal commitment to excellence in higher education and research was developed. A tapestry of federal and private programs contributed to strengthening our research and graduate enterprise. At its peak, the commitment to graduate education included not only the National Science Foundation but the major mission agencies as well. The contributions by the Department of Defense and NASA to the health of graduate education are well known to the Congress and the members of this Committee. Congressional leadership made many of these earlier investments possible. But although the federal government remains today a substantial patron for science, its investment in core programs designed to strengthen graduate education and contribute to the research and education environment in universities has diminished in crucial areas almost to the vanishing point.

The existing matrix of federal programs providing graduate student support is the remnant of a clear past recognition by the federal government of the importance to the nation of strong graduate education programs. Many talented students have pursued advanced education in a wide range of academic specialties simply because federal assistance in many forms made it possible.

Federally funded fellowships were a clear success and an important, even determining, factor in the careers of numerous researchers who now are faculty in our leading institutions. The number of federally funded fellowships has declined precipitously, from 51,000 in 1968 to fewer than 10,000 today; of these only about 1500 are awarded to students pursuing advanced study in the sciences and engineering.

The request for a major renewal for federal support for graduate education is consistent with the national goals that the President has established. Our national policy objectives depend heavily on graduate education, both for highly trained personnel and for advances in scientific and technical knowledge that sustain our economy and ensure our national strength. The present Administration has charted a course that requires significant real increases in total support for research and development, most notably in the area of national defense. The Department of Defense has proposed to increase its investment in university research programs, to initiate a small new program of graduate fellowships designed to attract a few of the most able undergraduates into graduate programs in fields linked to our national security needs, and it is undertaking a new five year, \$150 million program to upgrade research instrumentation in laboratories that carry out research programs in areas related to our defense needs.

The FY 1984 budget request for the National Science Foundation provides significant real increases in the Foundation's physical sciences and engineering programs. After almost a decade of neglect, steps to strengthen the NSF graduate fellowship programs are proposed. Some targeted attention also is being proposed to assist young researchers, who, with some encouragement at a crucial point in their careers, may now pursue

careers in academic science. But as welcome as these steps are, they are only the first steps toward a more comprehensive, government-wide investment strategy to strengthen the primary support for basic science--excellence in graduate education.

We believe the time has come for the Congress again to act to restore the federal commitment to quality graduate education by having all of the major mission agencies of the federal government play an appropriate role in the research and graduate education programs of the Nation.

The new graduate fellowship program implemented this year by the Office of Naval Research (ONR) offers one good model. That program is offering talented students competitive three year fellowships with stipends of \$12,000 and institutional allowances of \$8000. There are no employment requirements imposed by the Navy. The motivation of ONR is to find and attract a few of our best young minds to pursue advanced education in fields of science and engineering of interest to the Navy. It is an effort to contribute to an enhancement of the academic environment and to provide effective incentives to sustain the flow of very able young minds into academic careers.

An even stronger, more balanced approach would establish graduate fellowship programs in each of the major mission agencies that would provide for both merit-based, portable, three year graduate awards to individuals and an equal number of awards made to students through institutions that carry out basic research programs of interest to each agency. Such a shared effort would provide a balance of effort among the agencies and could produce a total of 1500 to 2000 awards annually.

These are not new approaches, they are well known, proven mechanisms that are mutually reinforcing. For relatively small investments by each agency we could provide major improvement not only for the science and engineering departments of our

universities, but also industry and government, which are dependent on these programs for their supply of highly trained personnel.

YOUNG FACULTY

Closely linked to the needs of graduate students are the increasingly serious challenges that face young researchers who seek to begin careers in basic science. As young Ph.D's complete their formal training, those who aspire to academic careers face hurdles far more serious than those encountered by their faculty mentors. The attractiveness of an academic career is being diminished, and the prospects for a successful start need to be enhanced.

This is partly the result the disparity between university faculty salaries of those in industry, and partly the result of obsolescent equipment and inadequate research and teaching facilities in the universities. There are estimated to be some 2,000 unfilled faculty vacancies in engineering, and the outlook for improvement is bleak. Daniel Drucker has observed that there are fewer than 300 new Ph.D's graduating every year who are both qualified and available to teach engineering.

The 1982 AAU report to NSF, "The Scientific Instrumentation Needs of Research Universities", provides a striking example of the increased costs young researchers and their departments face as they seek to establish new research programs (see table following). The data are now somewhat dated, so the message they convey should be interpreted as a conservative estimate of present circumstances.

In the case of a leading chemistry department the costs associated with equipping a new faculty member to do up to date research in the field of synthetic organic chemistry increased from \$116,500 in 1970 to \$741,000 in 1979. Inflation accounts

only for part of the rising costs. Imposed on the rising baseline of inflation are much larger costs resulting from advances in existing instrumentation and the development of totally new, more powerful and, therefore, more productive instruments. Young researchers of promise, but who are yet without successful track records, cannot meet these costs without substantial assistance from their departments and institutions, and they increasingly are hampered in being able to respond effectively.

The National Science Foundation has proposed a new Presidential Young Investigators Awards program that will provide no more than 200 recent PhD's with 5-year awards averaging \$30,000, to be matched from private sources. The funds will enable these potential new researchers to undertake a research program promptly and to have a genuine opportunity to develop their skills as investigators in their early years. For some it will mean the difference between remaining in the academic environment and leaving to pursue more encouraging and fruitful alternatives.

We believe it is time for the mission agencies of the Federal government to undertake comparable programs to enhance the human resource pool in fields related to their requirements and missions. We hope this Committee will exercise its leadership to encourage the appropriate committees of the House to add funding for this purpose to the FY 1984 authorization and appropriations for DOE, NASA, USDA, DOD and NIH.

TABLE 4. Increased Start-up Costs for Frontier Research (Synthetic Organic Chemistry)

Instrument	1970	Cost	Instrument	1979	Cost
Laboratory Instrumentation					
Rinco evaporator - 2		\$ 300	Rotavac evaporators		\$ 1,700
2 vacuum pumps		400	Prep. liq. id chromatograph with		
Distillation apparatus--spinning band		825	fraction collector		7,200
Solvent stills - 3		600	Analytical liquid chr. matograph with recorder		
Melting point apparatus		150	and data system shared with		
Gas chromatograph and recorder		1,450	capillary column		13,250
Hot plates and stirrers, heating mantles		275	Gas chromatograph		11,300
Glassware		500	Solvent stills with fire safety hoods		4,500
Infracord infrared Spectrometer		<u>3,500</u>	Hot plates, stirrers, and heating mantles		600
			Microware with standard taper joints		3,000
			Laboratory glassware		800
			Thin layer chromatographic plates and tanks		<u>1,500</u>
TOTALS:		\$ 8,000			\$ 43,850
Departmental Equipment to Which Access Required					
A-60 NMR Spectrometer		\$40,000	90 mhz R-32 NMR spectrometer		\$ 52,000
Cary 14 UV-Visible Spectrometer		14,000	200 mhz wide bore NMR spectrometer		225,000
Hitachi RMU-6 Mass Spectrometer		60,000	CFT-20 ¹³ C NMR spectrometer		80,000
Precision refractometer		<u>2,500</u>	GC-mass spectrometer and data system -		
			Finnigan 4000		160,000
			Cary 17 - UV, Vis, Near IR spectrometer		32,000
			Digilab FT-IR spectrometer		82,000
			High resolution mass spectrometer		
			- CEC - 21 - 110		<u>110,000</u>
TOTALS:		\$116,500			\$741,000

RESEARCH INSTRUMENTATION

The third area requiring attention is the need to address the serious problems posed for modern research and quality graduate education by obsolete research tools. The instrumentation and equipment now being used in many of our research and training laboratories is seriously out of date. A study completed in 1980 for the National Science Foundation found that the median age of instruments then in use in 15 universities

surveyed was twice that of the commercial laboratories studied. That report has been provided to the Committee; the Executive Summary is attached to my statement.

In three years, much has happened. Investment in research instrumentation by some federal agencies has increased significantly. The FY 1984 budget request for the National Science Foundation proposes a significant increase in support for equipment within its research programs. Among the mission agencies, the Department of Defense has recognized the consequences to its basic research effort of leaving the problem unaddressed. DOD this year is proposing the second year of a 5-year, \$150 million program to upgrade research instrumentation in laboratories that carry out research programs of interest to the Department. This year the Department of Energy is requesting funding to start a new \$6 million program to improve research instrumentation in research laboratories related to its mission. An Interagency Task Force on University Research Instrumentation is continuing to explore the problem. Within the university community the AAU, joined by the National Association of State Universities and Land-Grant Colleges and the Council on Governmental Relations of the National Association of College and University Business Officers, will undertake a special joint project to explore alternative approaches toward meeting the substantial backlog of obsolete equipment.

We urge the Committee to support these important initiatives as starting points toward a fuller, sustained, government-wide, reinvestment strategy for the decade of the 1980s. We share the view of the Administration that the problem of obsolete research equipment is one that affects adversely all agencies that support basic science; all agencies share a responsibility to work toward solutions. The new university research instrumentation programs are appropriate and necessary responses. We believe, however, they must be seen as the first step toward addressing in a serious way a much larger problem.

RESEARCH FACILITIES

We need also to address the problems associated with obsolescent research facilities. The Department of Energy, in its budget request, states the general problem well, at least as it affects certain DOE facilities. In requesting \$40 million for the Multiprogram General Purpose Facilities (MGPF) the Department states:

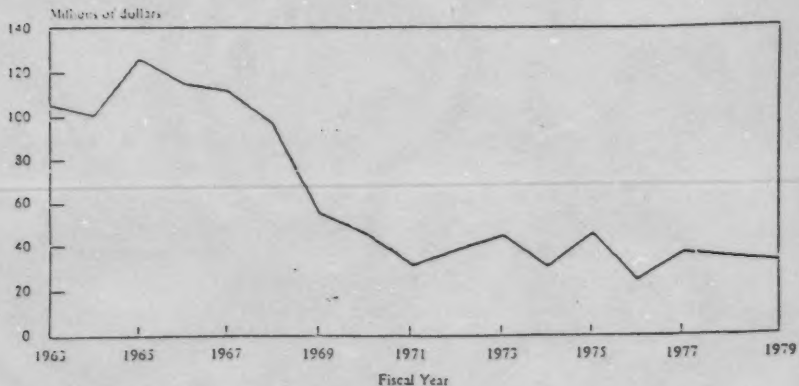
"The program is based on the premise that through continuous usage and aging, facilities deteriorate over time to a point where they are no longer useful to perform their intended functions and must be rehabilitated or replaced."

source: FY 1984 budget request, p 121,195.

In facing into the serious problems of the DOE multiprogram laboratories, the Department is addressing the same problems created by obsolete facilities faced by many university researchers who seek to carry out federally sponsored research programs in outdated laboratory buildings. The need to replace, renovate, rehabilitate and reequip old research laboratories is the other half of the research equipment problem. In many ways the equipment and facilities problems are intertwined. But, as a 1981 survey of research facility needs, also provided to the Committee, points out, our leading research universities have substantial backlogs of research facilities in need of replacement or modernization, if they are to be suitable sites for the conduct of state-of-the-art research programs. (The Executive Summary from this report also is attached to my statement.)

As shown by the following figure, for more than a decade the Federal government has invested essentially no funds to assist institutions in the replacement and repair of those laboratories in which the nation's basic science programs are conducted. Many of these buildings were constructed 25 or more years ago in response to a national mandate. Many of those facilities now need the same attention required by the DOE General Purpose Facilities--but for many financially-pressed institutions the resources to do this job simply are not available. Since the alternative is the progressive deterioration of research laboratories essential to the various missions of government, we believe it is time for each of the leading agencies of the federal government that fund the nation's basic science programs to assist in the rehabilitation of those laboratories essential to its research mission and goals. In the case of the Department of Energy, for example, we suggest that the Congress consider establishing a program to rehabilitate DOE-funded university laboratories at a level equal to the Multiprogram General Purpose Facilities program--\$40 million in FY 1984.

Figure 1. Federal obligations to universities and colleges for R&D plant



SOURCE: National Science Foundation

CONCLUSION

The FY 1984 budget requests by the National Science Foundation, the Department of Energy and the Department of Defense sustain and strengthen the commitments of these agencies to university research programs. They are excellent foundations on which to build. We ask the Committee to support those requests in full and to build upon them by establishing a new national priority.

This will involve bipartisan support for a new initiative across the six agencies that carry out most federally sponsored research and graduate education programs. The aims will be:

- o to create incentives to assure a steady and balanced supply of graduate students, not only in science and technology, but across the whole range of academic disciplines;
- o to provide career development awards to encourage talented young men and women to pursue careers in university teaching and research;
- o to provide adequate modern research equipment and facilities by providing steady funding for instrumentation and laboratory rehabilitation.

This will provide the strength so vital to our research enterprise, for research is the base of the pyramid of progress. It is the foundation of our nation's health, our social welfare, our industrial productivity, our military preparedness, our cultural life and our economic strength. Over the years, the Congress has understood and supported that fundamental link between research and our national well-being. I appreciate the opportunity to urge you to renew the support that will strengthen the research programs which are the foundation of our national strength.

Mr. WIRTH. Thank you, President Rhodes.

We've been joined by Congressman Williams from Montana, and Congressman Hefner from North Carolina.

Mr. Hefner, do you have anything to add before our final distinguished panelist?

Mr. HEFNER. I'd like to welcome Dr. Friday, and congratulate the University of North Carolina. We are back on the winning steak again. Hopefully, we will stay on a winning streak, and get some winning streaks going here on the budget. We are happy to have you here today, sir.

STATEMENT OF WILLIAM C. FRIDAY, PRESIDENT, UNIVERSITY OF NORTH CAROLINA

Mr. FRIDAY. Thank you very much. Thank you, Mr. Chairman.

My purpose is to underscore the implications of all you have heard on the public schools and the undergraduate and collegiate educational experience.

Let me, first, identify some of the things a State can do in dealing with the question of public school teachers.

This summer, in North Carolina, over 500 middle school math and science teachers will attend 20 special 6-week summer institutes to improve their teaching skills. This will include instruction in microcomputers and credit courses applicable to advance degrees.

These institutes will be held on our campuses and be taught by both high school and university faculty. Another 300 math and science teachers will work an extra 6 weeks this year on their contracts, to evaluate their programs and to revise and improve their curriculum. This cost will be borne by the State.

Third, the State board of education has increased its requirements from 18 to 20 units for graduation from high school, to include additional math and science units, and those who complete 22 units with a B average or better, will be given appropriate academic recognition. Probably the most important thing our State has done recently however, is that we are now concluding a 3-year effort with the State board of education to develop a comprehensive quality assurance program to strengthen the preparation of teachers for public and private elementary and secondary schools.

This special plan will create a network of six centers for mathematics and science instruction, and one will no longer be able to say that when all else fails, go enroll in the school of education. In the future, to gain entrance in your junior year, into this particular curriculum, one will have to meet professional standards just like those in other professional schools. This program is being funded by our legislature and private foundations.

Recently, at a conference at Yale University, held just a few weeks ago, one of the four national models for meeting the shortage of quality teachers in science and math was identified as the so-called Lindhurst Program at our university. Operating with a grant from this foundation, we have been putting 20 people through an intensive year's study of subject matter and methodology. Each of these individuals receives a full fellowship and tuition support.

At the end of the period, they will be prepared as middle school teachers. The curriculum is devised internally in the institution.

The most important thing we've done for young people in North Carolina occurred in 1978, when we initiated a public residential high school for gifted and talented students called the North Carolina School of Mathematics and Science.

Enrollment is in the 11th and 12th grades and now totals 400 students. They represent 88 of our 100 counties, and one-quarter of these students are minorities. Expenses are borne by the State. The curriculum includes strong humanities instruction.

This year's graduates scored with Stuyvesant School in New York City, as the top institution in merit scholar competition. I would urge your staff to come and see this refreshing and renewing experience with young people.

At the university, we are also reviewing, as are all major universities, our undergraduate curriculum, especially our work in engineering education.

Now, I cite these examples not because they happened in our State so much, but to illustrate the wide range of expensive and difficult steps that must be taken at this level, to respond sufficiently to the problems we face.

These activities are significant steps toward redressing serious inadequacies in mathematics and science education over the past 20 years. But they will be too little, too late, unless major support for these beginnings is received from the national level. These programs must be expanded and deepened not only in our State but throughout the Nation.

What we have done has been done with meager amounts of money reallocated from existing State funds. These small initiatives have, until now, not forced us to abandon our commitments to new and hard-won programs in reading, basic skills, vocational education, education of the handicapped, and other important undertakings.

In the past, when our Nation has perceived an internal crisis of these dimensions, the response has been significant. Given the current situation in mathematics and science education, it is clear to some of us that funding must be much greater in amount, that strategies for the remedy of our crisis must be diverse, and that the actions to be taken must represent real partnerships among higher education, the public schools, and the science and industry communities.

Just last Saturday in a meeting in Washington of the National Governors' Committee on Education and Economic Growth, one of these examples took place in that joint undertaking.

These activities and others are directed toward strengthening our public schools and enriching and expanding our undergraduate curriculum, particularly in math, science, and engineering. However, let me urge that none of these things be done at the expense of the humanities instruction, and I wish to underscore this essential requirement.

Finally, Mr. Chairman, three quick observations. For some years now, our country has sought to establish policies that will help black Americans overcome generations of deprivation in higher education and in all aspects of our national life.

Success in this great endeavor is indispensable in all that we are doing to build a more just society of free men and women. And I hope this is paramount in your deliberations.

Second, the development of the intellectual capacity in our schools and colleges and universities, of succeeding generations of young people, represents this country's greatest resource. It is that developed and trained intelligence that will make possible the greater productivity, the strengthened economy and the sounder defense posture essential to the security of this country.

It cannot be achieved in any other way. It necessarily follows then that insuring a national policy of a strong system of education is clearly in the Nation's interest, first and foremost.

And further, as a democracy, we are dependent upon an informed citizenry in making decisions as to our future domestic and foreign policies. Fear and timidity born of ignorance and misunderstanding inhibit and frustrate the exercise of sound and constructive public judgment on major issues.

Finally, I fervently hope that soon, at the national level of Government, we shall assert clearly and with conviction that the Nation's schools and universities, both public and private, are indispensable national resources that are fundamentally essential to the achievement of our national purposes, and especially the revival of the economy and the defense of this Nation.

The development of the abilities and talents of our young people must be primary among the priorities of this country. We need to be educating more, not fewer, Americans, and the sooner we get about it, the better. Thank you.

Mr. ROSENZWEIG. Mr. Chairman, that completes our presentation, and we are available for your questions.

Mr. WIRTH. Thank you very much, gentlemen. As we have pointed out, we are expecting the panel of Governors here at 3 o'clock, so we will have as much of an exchange as time allows, and appreciate your patience and understanding of the tight schedule we are under.

One of the rules of thumb that has been followed in the development of the American research establishment over the last 25 years has been that we ought to be committing approximately 3 percent of our gross national product to research and development, and of that 3 percent, about one-half of that comes from the public sector, from the Federal Government, and about half from the private sector.

That has been very successful in the past, and has been a model picked up by the Germans and the Japanese, who are now investing in research and development at more than the 3 percent of gross national product.

If we look at the fiscal year 1982 budget and then project that to 1983 and 1984, we find that we are not investing at a 3-percent level but, in fact, our overall investment in research and development is declining. If one further takes out the imbalance which you all have pointed out between the defense and the civilian side, the national investment in research and development upon which so much of our growth and future opportunities depends is, in fact, declining even more rapidly away from that goal of 3 percent, or the assumption of 3 percent.

We deal, on this committee, in very broad and macro terms. We do not get involved program by program, issue by issue. That's up to each of the substantive committees and the Appropriations Committees.

I was hoping that you all might comment on that 3 percent goal and on the balance between civilian and military commitments to research and development.

Mr. SPROULL. Well, I can start. It is, as you say, a very global thing. I think the 3 percent may be all right for the country as a whole, but for the industries that the country is going to depend upon to compete in international markets, my guess is the 3 percent will not hold well.

The high technology products that the country still is able to compete effectively with abroad require far more than that. The Defense Department has required far more than that as part of its research, and there, of course, it is hard to measure what the product is.

My belief is that it is going to take far more than 3 percent. If you look at a situation like the electrical industry, or the computer industry, or the chemical industry, except for the passthrough elements of the chemical industry, but the chemical industry is producing a real product, they have to spend far more than 3 percent.

And my belief is that the country, in the future, is going to be dependent upon those industries that are more in the 5 percent or even higher fraction of their product that goes into the new generation of products and devices.

Mr. ROSENZWEIG. I'd like to comment on the distribution, the public-private distribution that you referred to.

It may well be that over the totality of research and development, one-half public and one-half private is a sensible figure. For the institutions which we represent, which are responsible for 95 percent perhaps of the basic research that's conducted in this country, 50-50 is a dream. In fact, 95 percent of the fundamental research that's conducted in universities has been, and will continue to be, supported by the Federal Government.

There is no substitute for Federal funding. The additional money that industrially supported research will bring into the system will be helpful in some limited fields in which there is a reasonably perceived connection between what happens on the laboratory bench and some potential product down the line, but that's not going to support fundamental research in this country, to a very substantially larger degree than it has been in the past.

The Government must be the supporter of fundamental research, otherwise, it won't be supported.

Mr. WIRTH. Just to summarize on this point, Dr. Sproull, you're saying that 3 percent is really low, given the replacement costs of the last decade and the demands of the future, but we're seeing precisely the opposite trend occurring.

If 3 percent is low, we're down now at a little above 2 percent overall, in the country's investment in research and development, and we are seeing in the President's budget, an overall drop of 5 percent in civilian R&D. EPA is down 14 percent, the Commerce Department 23 percent, Interior 12 percent, NIH down 3 percent, NASA 6 percent, solar 57 percent, and so on.

And right across the board, we are seeing a noncommitment to the kind of base that the President talked about in his state of the Union address before the Congress. I mean, these are the kinds of issues that have to be teased out and understood by the Congress and by the country, if we are going to achieve the kind of growth, and the kind of economic recovery, and the kind of new generation of industry and economic development in the country that everybody is talking about.

You can't do it with rhetoric, you have to do it with the reality of a budget. I think the numbers in your testimony today suggests that that reality simply is not there. It's a declining curve that is about as foolish a national investment, or disinvestment, as one can possibly make. Mr. Mack.

Mr. MACK. I wonder if someone could indicate some additional elements of what goes into the makeup of our research program—that is, we've talked about the role of Government, but certainly industry does play a role. Would someone expand upon that, and what other elements we may look to? And are there ways that we might encourage other parts of our society to participate in this research role?

Mr. RHODES. I would be glad to take a shot at that, Mr. Mack. It is true that the Federal Government supplies much the greatest part, about 95 or 96 percent of our total research support, but other support comes from other sources.

Private industry is now supplying something between 3 and 4 percent of the total costs, and that is increasing sharply in most of the major universities. It is, however, almost all directed to rather narrowly targeted programs. It does not seem to be expanding in the area of basic research, and probably with good reason.

Graduate students, themselves, make a substantial contribution to it by the tuition that they pay, and by the foregone salaries that they give up in order to spend 4 or 5 years as graduate students.

The States contribute a substantial amount through the public universities. And, finally, the universities, themselves, including the independent universities, make a major investment in research. For almost any individual investigator, there will be components from each of those areas, but the basic foundation contribution has been from the Federal Government, and we believe that will have to continue if we are to remain competitive.

Mr. MACK. As far as measurement of our research programs, what other measures can we use besides maybe dollars and number of graduates? Is there something else that we can look at, to measure how this country is doing in its research? Again, that's an opening to whoever wants to.

Mr. SPROULL. It's very hard because it takes a long time to measure. You can measure in Nobel prizes, but that takes a long time. You can measure in industries, new industries created.

We are still, for example, living off the increment that the country gained by Office of Naval Research contracts in the late forties and early fifties which, in effect, generated the whole field of solid state devices.

The invention of the transistor occurred at Bell Telephone laboratories in the private sector, but the way the invention was transformed to a product, and a product to an industry, and an industry

to the whole communications computer strength of the country depended upon the base buildup by federally sponsored research in the universities, and trained people.

So, by citing measurement—you've hit on the most difficult problem of all. It's like measuring the effect of education on a person. It's hard to do a controlled experiment and start all over again, and try again, and it takes a long time.

We see it, though, in publications, in the engineering journals especially. The Japanese are doing a much greater job of publishing than ever before. They are now going for some of their basic research to the United Kingdom rather than to America, which is a disturbing trend.

We see it in the case like high energy physics. For example, you probably read in the papers about 2 weeks ago, the W particle was discovered at Lucerne, the joint European high energy physics program in Switzerland, rather than what would have been happening a generation ago. It would have been discovered at Berkeley, or Cornell, or some other place in the United States.

So, the measurement problem is very difficult, but the clues one gets shows that we are slipping badly.

Mr. FRIDAY. In the applied sense, Mr. Mack, in our part of the world, for example, the paper companies underwrite a good deal of research and development of the new pine trees that grow much faster, larger, and straighter. Genetic experiments in agriculture and food production and cattle breeding are proceeding. Many of these are products of the agricultural experiment station programs operated through land-grant institutions all over the country.

In forestry particularly, in Florida and the Carolinas now, it's a major industry developed out of these genetic studies. And there are many others like these.

Mr. MACK. One last question. Are there other imbalances that are taking place in our research? We've mentioned, I guess, the emphasis in the defense area. Are there other areas within our research that there are imbalances?

Mr. ROSENZWEIG. I don't think I can identify any in which the effort is too large, as one might argue it is in some aspects of the Defense budget, but surely the restraint, to put it mildly, that's been imposed on the NIH budget in the biomedical area, is a very serious concern for all of us, and ought to be of serious concern to a Congress that will, in the years ahead, be spending a great deal of time on the question of medical care costs.

The fundamental solution to the costs of medical care lies in preventing disease, and that's not going to happen without a solid base of fundamental biological research that will enable us to understand disease processes better than we do now.

Mr. MACK. Thank you very much.

Mr. WIRTH. Mrs. Martin.

Mrs. MARTIN. No questions.

Mr. WIRTH. Mr. Hefner.

Mr. HEFNER. No questions.

Mr. WIRTH. Mr. Gephardt.

Mr. GEPHARDT. Thank you all for being here today. This question may have been answered in your testimony, and I apologize if that

is the case, and maybe you could elaborate on some of the things you said in the testimony.

The administration has reversed its previous opposition to science education programs, and now advocates programs in the NSF at \$39 million and the Department of Education at \$50 million.

The question is, In your judgment, are these proposals for funding adequate to the national problem we're trying to solve, and why do you feel that way? I wish you would elaborate on that, and perhaps give me a funding level that you think would be adequate to the national problem we face.

Mr. ROSENZWEIG. I'm going to have trouble giving you numbers off the top of my head, but we will certainly supply those for the record, Mr. Gephardt.

The interest of the administration in science education is certainly welcome, and one might argue, overdue. There are a lot of things we know how to do in this country, that we've sort of forgotten how to do because they've been allowed to lapse from disuse.

For example, we do know how to make better teachers out of teachers that are now in the classroom. That's a fundamentally important thing to do because the children who are going to be going to school for the next 20 years are going to be taught very substantially by teachers who are now in the classroom.

We learned, in the 1950's and the 1960's, how to make better teachers out of those who are already teaching, through summer institutes and various other devices of that kind.

We allowed those to fall by the wayside. We are now rediscovering them. That's a very healthy development. I think the level that's been suggested in the President's budget is only a beginning level, although I'm unable at the moment to give you a number that I feel more confidence in. I'm sure the number is higher than the one that's there now.

Graduate fellowships, graduate training is lower than it needs to be, by a wide margin. My judgment would be that a doubling of the NSF number for graduate fellowships would not be unreasonable for the coming year.

The administration has moved to eliminate, in contrast to its other initiatives, has moved to eliminate fellowships in foreign language and area studies, an absolutely incomprehensible move so far as we can see, and we hope that the Congress will attend to that in short order.

There are other aspects of science education that we might address, but perhaps those would do for starters.

Mr. RHODES. Mr. Chairman, just to give one figure that won't give you a final total, but will indicate the scale of the problem, one recent study showed that 50 percent of all high school science and math teachers were teaching with only emergency or provisional certification in those areas. That indicates the scale of the problem.

Mr. GEPHARDT. Thank you.

Mr. WIRTH. Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman. My other committee is the Committee on Education and Labor, and we just finished, in both one of my subcommittees and the full committee, working on the bill to improve the availability of mathematicians and scien-

tists in this country. That bill will shortly be coming before the full House, so I ask you this question from that standpoint and from that committee rather than this one.

As you know, considerable discussion and controversy continues regarding the matter of university-industry relationship. While it's clear that the public can benefit from cooperation between the private sector and public education, to use the example of technology transfer, it is nonetheless a matter of concern that an inappropriate relationship could result through the fostering of private authority over public education.

That's rather a broad and almost a philosophical question. If one or two of you, given our time constraints, could give me some help, I would appreciate it. It is a question that we wrestled with continually the past several weeks, as we dealt with the math and science legislation.

Mr. ROSENZWEIG. This is one of those questions on which we really, for once, have reason to be optimistic. If one looks, by comparison, to what is happening today with respect to industry and universities, if one looks at what happened in the 1950's and the 1960's in respect to the role of the Federal Government in relation to universities, there was wrought in this country a genuine revolution in the nature of university, American universities, and in the nature of research, and one can search the literature of that decade and a half largely in vain, for serious expressions of concern or thought about what was happening to our system of education and research, as a consequence of those enormous programs of the Federal Government.

By comparison, the last 2 years, in response to a relatively small number of publicly noticeable research support contracts from industry to universities and a small number of developments, relatively small number of other developments, there has been an outpouring of conferences, and papers, and newspaper articles, and journal articles, about the dangers to free research that come from the intrusion of commercial motives into the support of research.

I don't think that anything that's likely to come from the development of that relationship will compare, in any way, with the changes that came from the connections between the Government and the universities in the 1950's and the 1960's, and I think that the fact that the attention that has been devoted to that question is a sign that we are probably in pretty good shape in protecting our values. There's no reason for anybody to be corrupted, in short, who doesn't want to be corrupted.

Mr. SPROULL. Big industry is pretty sophisticated about its interaction with universities. Usually, industries and companies are supporting the universities anyway, through unrestricted grants. And so there is less reason for them to be very careful, and especially to be greedy, in picking up the results of research, or especially in somehow adversely affecting the course of the research.

Sometimes, that happens with very small companies, very fast-moving technologies but, for the most part, I agree with Mr. Rosenzweig. I think there is relatively little danger from this area.

The support has been as benign, or perhaps even in some cases more benign than that of the Federal Government.

Mr. WILLIAMS. Personally, I find it less of a concern when the public effort is being exerted over public education than I do when private industry is exerting some authority through the use of, for example, capital, over public education.

All of us want to be sure that policy leads capital in public education, rather than capital leading policy.

Mr. ROSENZWEIG. I think that the goal that we share is to protect the integrity of universities and the process of inquiry, and I think most of us would feel that the best protection for that is precisely the diversity of the sources of support that is enhanced as private supporters come into the system, in competition with or in cooperation with public support.

So, it is not that private support is more dangerous or less dangerous than public support, it is that the two together are a protection for the system as a whole.

Mr. SPROULL. Maybe we misunderstand your question, but we've been addressing the research part, but you are talking to education.

Industry has not, to the best of my knowledge, participated in any important way, in the valuating parts of education, in history and philosophy and psychology and so on.

Industry has stayed on the more value independent or value neutral parts, like physics or electrical engineering. I think it would be a dangerous thing if companies, large or small, were telling us what kind of economics to teach, or what kind of philosophy to teach, but that really hasn't happened.

Mr. FRIDAY. Mr. Williams, my experience has been quite the contrary, in that the people, the most sensitive people to that allegation are the companies, themselves. They really don't want to have the finger pointed.

Mr. WILLIAMS. Mr. Chairman, just in closing, I want to make the observation, personal observation, that there are many in Congress looking at the very difficult budget constraints that we face, and while simultaneously viewing the problems in R&D and the problems in providing math and science professors and holding them in the universities, I believe that industry should play a much greater role and take up a far greater share of the cost of that than they are now.

And when I say far greater, I mean that there are Members of Congress who want industry to quadruple and beyond their financial contributions.

Some of us who have been in public education a long time, and I know that description includes you gentlemen, are simply concerned that that be done in such a way that there is not an inordinate influence of the private sector over the public's education system.

Mr. FRIDAY. But if they reach those dimensions, Mr. Williams, I'm sure there would be great concern. The instability of that support, since it is influenced so much by economic trends that are instantaneous sometimes, would be a real fear here.

Mr. WILLIAMS. Thank you, Mr. Chairman. I appreciate the extra time.

Mr. WIRTH. For a final question, Congressman Miller.

Mr. MILLER. Just quickly, much of your testimony seems to be on the impact of failing to make a proper commitment in terms of facilities and equipment to research. I just wonder if you could also describe what impact this is having on the ability to teach at the university?

It seems to me that you need basic facilities and equipment to conduct research, which may look forward to socially useful products and knowledge. But those same facilities must go backward in time to reach undergraduate and graduate students, for the purpose of putting them in the position to assume the research positions of the future.

As I read the National Science, you are talking about a fundamental decay in facilities and equipment. I do a lot of vocational education work at the elementary and secondary level. Students are no longer working on the state of the art of knowledge or facilities or equipment. And it's hard to believe that they can become proficient competitors with that kind of resources available to them.

Mr. RHODES. Mr. Miller, you have stated our problem very accurately, and we couldn't have described it better ourselves. It does extend into undergraduate education as well as graduate education, and it has two important consequences.

The first is that unless—in the kinds of universities we represent, we can give undergraduate students a taste of the excitement and commitment that research involves, we shall never fill the ranks of the research scientists.

Second, our problem is that in training young engineers and physicists with equipment which is obsolescent, at best, and obsolete, at worst, we are sending them unprepared into industry.

There are major problems because education is a continuous process, and it does represent a formidable problem at the undergraduate level, too.

Mr. SPROULL. I agree exactly, and I'm delighted you've raised this question so eloquently. The whole thing is exacerbated enormously by the advent of the computer, which raises the costs of all equipping for undergraduate and graduate laboratories, teaching laboratories, and graduate research laboratories.

It's comparable to the invention of the book. Fortunately, that occurred very slowly, a long time ago, and didn't raise everybody's cost, but it's as if there had been no book, and suddenly somebody invented the book, and you had to have books and libraries and everything that goes with it.

The computer has made obsolete all of our existing research equipment that is not computerized, and it's made obsolete a lot of undergraduate education. It's going to be extremely expensive to make that conversion. We're all in the process of doing it as fast as we possibly can, but a key element of it is that in the graduate student education, the education of graduate students and the research are indistinguishable.

The way to educate graduate students is only in part in classrooms; most of it occurs in the research laboratory, and the quality, as President Rhodes says, the quality of the research equipment there is just absolutely vital to training people whose center of

gravity, whose contribution to society is going to be in the 21st century.

Mr. MILLER. Let me just ask one final question. It seems to me that, in the Congress and in the economy, in general, there is a great deal of consideration given to how to save what I euphemistically call "mature" industries.

I sense, from your testimony, that ceramics is slipping away from the United States. You are talking about losing the competitive edge on the yet-to-be-born industries, when you talk about the deterioration of this research base. It is not just a question of whether or not we can maintain some semblance of an automobile industry, or steel industry, or computer industry, but the competitive edge for new industries. It seems to be the very strong suggestion that you think that is waning on us.

Mr. RHODES. That's correct. In general, the record shows that mature industries have a lower research base than the new emerging technologies and industries. The sort of areas in which we have to compete and excel, as a Nation—biotechnology, electronics of the most sophisticated kind—have a much higher research and development component than the more mature industries, and that makes our lack of total contribution even more worrying.

Mr. MILLER. Would you include materials in that?

Mr. RHODES. Yes.

Mr. MILLER. Thank you.

Mr. FRIDAY. Mr. Miller, that's also why so much depends upon the signal that is passed by what you do because it says to the entire structure that this is the course we should follow, and we can't do it without a strong national emphasis.

Mr. MILLER. Thank you.

Mr. WIRTH. Gentlemen, thank you very much for being with us. We greatly appreciate your help and assistance to us as we try to sort through an extreme budgetary situation and try to keep our eye on the future at the same time, and we look forward to working with you, and you, Dr. Rosenzweig, being here in town, representing all the organizations, and helping us put that together, from AAU and others. We appreciate it. Thank you very much.

[Additional material submitted for the record follows:]

[A Report to the National Science Foundation by the Association of American Universities]

THE SCIENTIFIC INSTRUMENTATION NEEDS OF RESEARCH UNIVERSITIES—EXECUTIVE SUMMARY

OBJECTIVES OF THE STUDY

Assess the current status of scientific instrumentation in major research universities.

Identify factors which facilitate or impede its development, acquisition, use, and maintenance.

Estimate the future consequences of present funding policies.

Recommend appropriate policy changes.

METHODOLOGY

Sixteen universities, six national and government laboratories, and nine commercial laboratories were visited; about 80 department heads and over 250 researchers and research administrators were interviewed in the universities; in addition, the views of approximately 60 researchers and research managers were gathered in visits to national, Government, and commercial laboratories.

Five fields of science and engineering were studied: physics, chemistry, biological sciences, earth sciences, and electrical engineering.

Numerical data on instrumentation acquisition, age, and replacement were gathered from 14 universities and four commercial laboratories.

THE PROBLEM

Instrumentation is essential for progress in experimental research. Scientific knowledge has advanced rapidly; new instruments, more costly but qualitatively superior to earlier ones, have allowed measurements previously impossible. The rate of change has been great, competition among researchers intense. The capacity of university researchers to work at the frontiers of knowledge has important consequences for the Nation's future research productivity and for the training of future generations of scientists and engineers.

The Federal Government has adopted a variety of funding policies for the support of research instrumentation: the competitive project system, special instrumentation programs, formula grant programs, block-funded centers, federally sponsored research centers, and regional instrumentation centers chief among them. For about 15 years, Federal support for basic research has gradually declined; now support levels are further strained by rapid inflation. But inflationary price increases are simply the rising baseline upon which are superimposed the frequently much larger increases resulting from instrumentation advances.

ASSESSMENT

The great diversity of instrumentation needs found among institutions visited precludes simple generalizations. However, problems in the acquisition, use, and maintenance of research instrumentation were found in all of the leading universities visited. The precise configuration of these needs and problems varies widely. The capabilities of institutions and departments to meet them do also.

University researchers face great difficulty in replacing worn out or obsolete instrumentation and in acquiring new instruments needed for frontier research. A comparison of university instrumentation inventories with those of two leading commercial laboratories reveals that the median age of university equipment is *twice* that of the commercial laboratories' instrumentation. Even the Nation's major research universities have not kept pace in meeting instrumentation needs. Researchers heavily dependent upon Federal funds have witnessed grant size fall behind escalating research requirements. As a result, many work with inadequate tools that impair the pace of research, force closure of lines of inquiry, strain operations and maintenance budgets, and compromise the advanced education of graduate students.

Startup funds for new faculty often are shrinking as costs rise. Support equipment is needed to test, calibrate, and augment primary instruments. Often it is especially difficult to fund. Funding for operation and maintenance costs is increasingly difficult to obtain. As a result, faculty and students sacrifice research time to these routine tasks.

Many research facilities are in need for renovation or replacement: Federal funding for these purposes has decreased, however, and universities lack the funds to respond. Signs that aging facilities now impede research were found in many laboratories and support facilities.

Local university needs vary widely, reflecting the unique circumstances under which each institution operates and the great diversity between and even within the five fields studied. Present funding policies do not provide sufficient flexibility to deal with such local circumstances.

When compared with Government and commercial laboratories visited, most university laboratories fare poorly. The best equipped industrial laboratories surpass almost all university laboratories visited. One university researcher captured the sense of disparity and observed, "the ivory towers are now in industry." The director of one leading industrial research laboratory described the struggle of university researchers as he has observed them as "pathetic." When asked to contrast their laboratories with foreign laboratories, a number of university researchers stated that many, most notably those in Japan and West Germany, are now superior.

CONCLUSION

The quality of research instrumentation in major university laboratories has seriously eroded. Not all, but many researchers in the Nation's best funded universities are struggling to work effectively with obsolete tools. The equipment being used in

the top-ranked universities has a median age twice that of the instrumentation available to leading industrial research laboratories.

Three *causes* are identified: A relative decrease in instrumentation support; inflexibility within the project system; insufficient support for maintenance.

Three major *consequences* are: diminished research productivity; reduced training capacity; decline in international competitive status.

RECOMMENDATIONS

Federal policy for the support of research instrumentation should provide for a basic three-part funding strategy: Strengthen instrumentation funding in the project system, expand special instrumentation programs; create in the National Science Foundation a new, supplemental formula grant program to provide needed flexibility to meet diverse institutional needs.

FUTURE STUDIES

Five studies are recommended: (1) A thorough analysis of foreign research funding policies and programs and their implications for the competitive stature of American science should be undertaken; (2) a study of cooperative research arrangements between industries and universities and the factors—including Federal policies—that encourage and discourage them is needed; (3) the planned assessment of regional instrumentation centers should include consideration of the concerns documented in this report; (4) universities should assess current instrumentation policies and develop mechanisms and incentives designed to promote effective sharing of instrumentation; (5) an assessment of the costs and benefits of federally mandated equipment inventory and reporting systems should be undertaken.

[A Survey of Recent Expenditures and Projected Needs in Fifteen Universities]

THE NATION'S DETERIORATING UNIVERSITY RESEARCH FACILITIES

EXECUTIVE SUMMARY

Objectives of the Survey

This survey of 15 leading universities had three objectives:

In the institutions surveyed, document expenditures for research facilities and major (\$100,000 or more) equipment, without regard to source of funds, over the last 4 years in the following six fields: Biological sciences; chemical sciences; earth sciences; engineering; physics; medical schools (10).

Provide responsible estimates, prepared by those universities, of expenditures for research facilities and major equipment that would be required over the next 3 years to meet the research and training needs of only current faculty.

From researchers and department heads, acquire assessments of the major consequences for science, industry, and Government if the accumulating facilities needs of their institutions are not addressed.

Findings

In many of the science and engineering departments surveyed, a substantial backlog of research facilities and equipment needs is accumulating. Projected funding needs over the next 3 years equal almost twice the level of expenditures by universities for their research laboratories and equipment over the past 4 years. Already, institutions often are unable to provide their basic science and engineering researchers and students with either the modern laboratories or equipment needed to conduct state-of-the-art research and education programs.

The loss of Federal contributions to the support of research facilities and the absence of compensatory sources of support has forced many institutions to renovate and repair only those facilities in greatest need. Even this work often is carried out in a necessarily piecemeal fashion which is uneconomical over the long term. Working under such conditions, researchers unavoidably compromise their productivity and future competitiveness.

Relatively few construction projects have been completed in recent years in a majority of the physical sciences and engineering departments surveyed. Many institutions estimate substantial needs for new laboratories, for the expanded modernization and repair of old laboratories and for modern research equipment. Details are provided in the following report and the appendices. The survey's principal findings are the following:

In the last 4 years, for the six fields surveyed, 15 leading universities together spent \$400 million from all sources for facilities and major equipment. Half of those expenditures was for a relatively small number of new construction projects; the remaining half, spread over a larger number of generally less costly funding projects, was for facility modernization, major repair and renovation, and special purpose research equipment.

In the next 3 years, the 15 universities estimate they should spend almost twice as much (\$765 million) just to provide the necessary research facilities and special research equipment for current faculty only. These estimates are in current dollars and, therefore, do not include the added effects of inflation.

New construction to replace outmoded facilities accounts for almost 60 percent of total projected funding requirements across all fields.

In addition, substantial needs for major research equipment were identified in all six fields. These equipment estimates include only major items costing at least \$100,000. As the 1980 AAU report to the National Science Foundation found, most departments also have serious deficiencies of less costly analytical instrumentation and support equipment.

Recommendations

The problems of obsolescence in the Nation's university research facilities have been growing for more than a decade. To solve them, a new national investment strategy is needed. That strategy should provide direct, balanced support for university facilities from Federal agencies and provide investment incentives designed to involve industry, the States, and the universities in a coordinated effort. The following steps are suggested as starting points:

1. Key Executive agencies should develop a mechanism to periodically assess the condition of university research laboratories and the consequences for the Nation of that condition. Such assessments should involve the Office of Science and Technology Policy, the National Science Foundation, the Department of Defense, the Department of Energy, the Department of Health and Human Services, the Department of Agriculture and the National Aeronautics and Space Administration. The views of industry and the universities also should be solicited.

If the initial review corroborates the assessment of this survey the following recommendations should be considered:

2. The facilities and equipment program earlier proposed to be undertaken by the National Science Foundation but deferred should be restored as a priority initiative in fiscal year 1983.

3. The Department of Defense, Department of Energy, the National Aeronautics and Space Administration, the Department of Health and Human Services, and the Department of Agriculture should establish research instrumentation and facilities rehabilitation programs targeted on the fields of science and engineering of primary significance to their missions. The National Science Foundation should assist in the development, implementation, and coordination of those activities.

4. Incentives should be provided to encourage industries and the States to join with universities and the Federal Government in renewing the Nation's university research laboratories.

5. Interest costs incurred in the construction, modernization, renovation, and repair of facilities in which federally supported research programs are carried out should be allowable indirect costs under OMB Circular A-21.

Mr. WIRTH. Our next panel this afternoon includes three very distinguished Governors whom I hope will be able to join us now.

Thank you very much for being with us. We have joining us this afternoon, Gov. Scott M. Matheson of Utah, who is chairman of the National Governors' Association; Gov. James R. Thompson, chairman-elect; and Gov. Richard D. Lamm, chairman of the Governors' Human Resources Committee.

Gentlemen, thank you very much for being with us. We greatly appreciate your being here, and your patience. Please proceed in whatever way you feel is appropriate. Governor Matheson? Without objection, your prepared testimony will be inserted in the record.

STATEMENT OF HON. SCOTT M. MATHESON, GOVERNOR OF UTAH
AND CHAIRMAN, NATIONAL GOVERNORS' ASSOCIATION

Mr. MATHESON. Thank you very much, Mr. Chairman. We are very pleased to have the opportunity to join you today. It's a pleasure to be here with my colleagues, Gov. Jim Thompson of Illinois who, on a very close vote today, was elected chairman-elect of the National Governors' Association, and my colleague from Colorado, your State, Gov. Richard D. Lamm, who is the chairman of the Human Resources Committee of the National Governors' Association this year.

The three of us have been involved in an interesting experience in the last several weeks, putting together what we hope is a useful National Governors' Association position on the Federal budget, and perhaps some ideas of how to get it under some control in terms of the outyear deficits, and we had the opportunity to conclude our meeting today at our plenary session.

We were delighted to share the great abilities of the chairman of the Budget Committee in the Senate and the chairman of the Budget Committee in the House.

What we thought we might do was briefly outline our remarks and then, hopefully, have most of the time to have dialog with the members of the committee, Mr. Chairman, and if we could each take 5 minutes or so, then we could discuss it in any way that would be helpful to the committee.

My remarks will be associated with the problems that States are facing in the 1982 experience of the economic recession, the fact that the budget deficits are of major concern to the ultimate well-being of all of us, and then to report on the budget resolution which we adopted at our plenary session earlier this afternoon, after extensive and spirited debate.

Last year's deficit of \$111 billion and the projected deficit this year of somewhere around \$194 billion is the type of discussion which none of us have had any experience with until recently, and it threatens, in our view, to undermine the financial superstructure of State and local governments.

We did an interesting survey to find out how States are getting along, and we found out that 47 of the 50 States face revenue shortfalls this past and current fiscal year, of nearly \$8 billion as compared to the appropriation figures.

For example, California had a \$4 billion surplus in 1978, and Governor Deukmejian is now looking at a deficit of about \$1.8 billion this fiscal year. Michigan is about \$900 million short. Twelve States are somewhere between \$20 and \$500 million, and some of the small States have deficits that are around 20 percent of their entire State budget.

The States use national economic assumptions on GNP growth of employment and inflation. When we put those together, I can tell you, we were all wrong. The forecasters who gave us our economic advice, I guess the economic advice to everyone across the country, did not have the right information.

So, as a result, the States have, in many, many cases, cut dramatically in their budgets and raised taxes. A majority have had to do either one or both in terms of sales and income tax, in the last

year. Clearly, layoffs, across-the-board cuts and austerity has been the name of the game out in the 50 States this year. The CBO baseline projects a budget deficit of \$267 billion by 1988. That's 5.6 percent of GNP. That's even assuming that we have a healthy recovery of somewhere between 3 and 4 percent GNP per year.

So the deficits are structural in nature, getting larger, not smaller in the outyears, and those deficits pose some real danger to abort the hoped for recovery and drive up interest rates again.

I think Governors in our meetings, have sensed a little breath of spring in the air, maybe a little economic upturn here and there, and we love that sweet odor, but we don't want to get into it and have a pretty good year, and then find out that those deficits cause increase in interest rates and the inability to maintain the integrity of investment in the market and in the capital infrastructure needs, both public and private.

So, we decided we had to get into that arena. It was our view that we should have the deficits by 1988 down to no more than 2 percent of GNP. That was basically the figure we lived with during the seventies. That's the basis upon which the bipartisan and highly effective and capable Peter Peterson committee has taken, and if that were to occur, we would have the deficit down to—and I hate to use this figure—only \$90 billion by 1988.

I didn't think 1 year ago that any of us would be willing to think in terms of a \$90 billion deficit, but clearly that has now become the case.

Now, if we arrived at that, it would require changes that generate \$177 billion worth of savings by that year. The Governors have felt, and supported a resolution which was adopted today, that we need to act now because of the tremendous lag between the effect on the budget and tax decisions.

We also are concerned about equitable terms for domestic and defense cuts as well as revenue increases. So, when we prepared my testimony to come over today, we didn't know whether the NGA would pass a resolution on giving us something to talk about. So, I didn't have a backup position, but I'm very pleased to tell you, after a couple of hours of very spirited debate, we passed a resolution with six components in it, by a vote of 30 to 10.

It includes, quickly, these six points. The first is that we support the bipartisan social security compromise. We feel that it is not perfect but, clearly, that is something in the public interest that must be done if we are going to put into management capability and fiscal solvency the social security program, even recognizing there are additional serious outyear problems.

Second, suggest that we hold down spending, discretionary spending, to three-fourths the rate of inflation. Now, the first year of the administration, we entered into the block grant business. And the Governors came into town and said, "We'll take a 10 percent if you'll give us some flexibility," and you rewarded us with a 25-percent cut and no flexibility.

So, we have been living on State and local funds from the Federal system with a dramatic reduction since that time, but if we are going to come in and be responsible about the end result, then clearly we ought to be at least a part of that solution.

So, we have suggested a flat rate for 1983, which Congress adopted in the resolution last fall. We are suggesting discretionary spending be limited to three-quarters the rate of inflation. That would save, by 1988, about \$11 billion.

Third, we are urging that you provide almost full funding for means tested and other critical entitlement programs. We have done the debate on AFDC, food stamps, medicaid, SSI, child nutrition and other items, and we have reached the conclusion that they basically should be funded close to existing levels.

We suggest a small 1.5 percent reduction by 1988 and, frankly, we've got those pretty well under control. They are not the ones that are growing, and it's not a major portion of the budget.

Fourth, we suggest that the growth be limited in non-means-tested entitlement programs. This brings in and opens up, in our judgment, the world of medicare, the various medical insurance, disability, and retirement programs, and we think that it is absolutely essential to face up to some retooling and remodeling in those fields, without destroying the ability of those who are not capable of spending before their needs are protected.

We then decided to jump into the defense picture. We urge a limit on national defense to between 4 and 6 percent of real growth in the 1984-85 period, but that it be limited to 3 to 5 percent over the full 5 years from 1984 through 1988.

Some Governors do feel we should enter that thicket, and several do, and, of course, the resolution approved that today. Since defense has increased about 57 percent the last 3 fiscal years, we felt that we could carefully examine that without making choices on maintenance and operation costs versus procurement and whatever the issues may be, but we do see the strong need to address that issue, and received encouragement from that perspective from the chairman of the House Budget Committee, when he addressed our association earlier this morning.

Finally, if you are going to face up to the whole picture and you've done the best you can, as a pure economist, to get those expenditures down, and you can save a little money on interest on the national debt, you suddenly find yourself without being able to get down to that \$90 billion, unless you take a look at the revenue side.

And so we've suggested, without endorsing exactly how to get there, that if necessary, we should examine revenues in order to reach the 2 percent GNP by 1988. We think that that is basically a responsible position and, frankly, we would like to be a part of the national consensus that is a part of the debate, and we would like to come to the Hill with our message and present it to the Congress, and cooperatively be a resource, and maybe we can help take some of the flack, which clearly is a part of the budgeting process for this body, but we are anxious to be in it, and today took what I think is a significant step which allows us the opportunity to be a participant, and we are here to offer that assistance and to be of whatever help we can be, to the Budget Committee particularly, and the Congress generally, to be certain that the budget issues are addressed properly this year. Thank you, Mr. Chairman.

[Testimony resumes on P. 57.]

[The prepared statement of Governor Matheson follows:]

PREPARED STATEMENT OF GOV. SCOTT M. MATHESON

MR. CHAIRMAN, MEMBERS OF THE HOUSE BUDGET COMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO OFFER THE PERSPECTIVE OF THE NATION'S GOVERNORS ON THE PRESIDENT'S FISCAL 1984 BUDGET PROPOSALS. THE ECONOMIC REALITIES OF THE PAST FEW YEARS HAVE MADE IT PAINFULLY CLEAR THAT THE ECONOMIC FORTUNES OF THE FIFTY STATES ARE INEXTRICABLY LINKED TO NATIONAL ECONOMIC POLICIES AND PERFORMANCE.

THE ACTIONS OF THIS COMMITTEE AND THE CONGRESS TO DEAL WITH THE INCREASING FEDERAL BUDGET DEFICIT ARE PARTICULARLY IMPORTANT TO THE CONTINUED VIABILITY OF STATE GOVERNMENTS. THE NUMBER ONE PRIORITY OF GOVERNORS IS ECONOMIC RECOVERY AND A BUDGET WHICH CONTRIBUTES TO THAT RECOVERY.

THE SPECTRE OF CONTINUED ECONOMIC DECLINE HAS HEIGHTENED GOVERNORS' INTEREST IN THE FEDERAL BUDGET PROCESS. FOR TOO MANY YEARS, WE LIMITED OUR ATTENTION AND OUR COMMENTS TO THOSE PROGRAMS WHICH DIRECTLY AFFECT THE STATES—PARTICULARLY STATE AND LOCAL GRANTS AND THE STATE ADMINISTERED BENEFIT PROGRAMS. THIS YEAR,

HOWEVER, DUE TO THE THE DETERIORATING FINANCIAL CONDITIONS OF STATE AND LOCAL GOVERNMENTS AND THE POTENTIAL ADVERSE IMPACT OF HIGH DEFICITS ON INTEREST RATES AND ECONOMIC RECOVERY, THE GOVERNORS ARE MORE CONCERNED WITH THE ENTIRE FEDERAL BUDGET.

WE NOW BELIEVE THAT LAST YEAR'S \$111 BILLION DOLLAR DEFICIT AND THE PROJECTED FEDERAL DEFICIT OF \$196 BILLION FOR THE CURRENT FISCAL YEAR ARE THE TIP OF AN ENORMOUS ICEBERG WHICH THREATENS TO TEAR APART THE STRAINED SUPERSTRUCTURE OF STATE AND LOCAL GOVERNMENT FINANCING. FOR THESE PAST FEW YEARS, WE HAVE NERVOUSLY EYED THIS ICEBERG, HOPING TO NAVIGATE AROUND IT, BY RAISING TAXES AND CUTTING BUDGETS. BUT THE PROJECTED OUT-YEAR DEFICITS--WHETHER WE USE PROJECTIONS OF THE ADMINISTRATION OR OF THE CONGRESSIONAL BUDGET OFFICE--ARE UNACCEPTABLE AND POSE A CLEAR AND PRESENT DANGER TO OUR SHIPS OF STATE.

MY REMARKS TODAY WILL FOCUS ON THE THREE CRITICAL ISSUES WHICH DETAIL OUR INTEREST IN THE BUDGET PROCESS: 1) THE CURRENT FISCAL CONDITIONS OF THE STATES; 2) THE POTENTIAL IMPACT OF THE PRESIDENT'S BUDGET ON ECONOMIC RECOVERY; AND 3) THE NATIONAL GOVERNORS' ASSOCIATION'S PROPOSAL FOR BI-PARTISAN BUDGET ACTION. GOVERNOR THOMPSON WILL DISCUSS JOBS LEGISLATION AND UNEMPLOYMENT INSURANCE AND GOVERNOR LAMM WILL PROVIDE COMMENTS ON HUMAN RESOURCE PROGRAMS.

STATE FISCAL CONDITION

ANY ECONOMIC DOWNTURN PLACES CONSIDERABLE PRESSURE ON THE FINANCES OF STATE GOVERNMENTS. THE LENGTH AND DEPTH OF THE CURRENT RECESSION HAS WROUGHT GREAT ECONOMIC DIFFICULTY FROM COAST TO COAST. AS OF JANUARY, 1983, 47 OF THE 50 STATES ARE FACING SHORTFALLS TOTALING \$7.9 BILLION RELATIVE TO THE REVENUE ESTIMATES USED TO ESTABLISH THEIR BUDGETS. FOR MANY STATES, THE SHORTFALLS ARE EXTREMELY LARGE, BOTH IN ABSOLUTE DOLLARS AND AS A PERCENTAGE OF THEIR REVENUE BASE. THE STATE OF CALIFORNIA, FOR EXAMPLE, WHICH HAD A \$4 BILLION SURPLUS JUST 4 YEARS AGO, FACES A \$1.8 BILLION SHORTFALL; MICHIGAN, DESPITE SEVERE BUDGET RESTRICTIONS, ESTIMATES A SHORTFALL OF \$800 TO \$900 MILLION; AND 12 OTHER STATES PROJECT REVENUE DECLINES OF BETWEEN \$200 AND \$500 MILLION THIS FISCAL YEAR. AS A PERCENT OF THEIR BUDGETS, SEVERAL OF THE STATES ARE PROJECTING REVENUE DECLINES OF BETWEEN 20 PERCENT AND 27 PERCENT, AN OBVIOUSLY VERY CRITICAL SITUATION, WHILE ANOTHER 10 STATES FORECAST REVENUE DECLINES BETWEEN 10 PERCENT AND 14 PERCENT.

THESE REVENUE DECLINES HAVE FORCED STATES TO REDUCE EXPENDITURES AND RAISE TAXES. ON THE SPENDING SIDE, MANY HAVE ALREADY IMPLEMENTED SEVERE AUSTERITY PLANS. THIRTY-THREE STATES HAVE FROZEN OR LIMITED HIRING, 18 HAVE INSTITUTED LAYOFFS AND 8 HAVE FURLOUGHED WORKERS. MOST STATES HAVE ALSO SCALED BACK COST-OF-LIVING ADJUSTMENTS OR MERIT RAISES FOR STATE EMPLOYEES. A RECENT

REPORT BY THE INTERGOVERNMENTAL HEALTH POLICY PROJECT FOUND THAT 30 STATES HAVE CUT SERVICES TO HOSPITALS, NURSING HOMES AND DOCTORS. ALL BUT SIX STATES HAVE REDUCED SERVICES TO PREGNANT WOMEN.

A MAJORITY OF THE STATES HAVE ALSO RAISED EITHER SALES OR INCOME TAXES DURING 1982. DURING 1982, 14 STATES RAISED THEIR PERSONAL INCOME TAX, 14 RAISED THEIR SALES TAX, 6 INCREASED THEIR CORPORATE INCOME TAX, 12 THEIR MOTOR FUEL TAX, 9 THEIR TAXES ON CIGARETTES AND 3 THEIR TAXES ON ALCOHOL. IN ADDITION, FIVE STATES MET IN SPECIAL LEGISLATIVE SESSIONS DURING THE LAST FEW WEEKS OF CALENDAR YEAR 1982 TO ENACT INCREASES IN GENERAL SALES OR PERSONAL INCOME TAXES, AND MANY ADDITIONAL INCREASES ARE EXPECTED BEFORE STATE LEGISLATURES ADJOURN.

THE CURRENT FINANCIAL CONDITION OF STATES HAS DETERIORATED RAPIDLY DURING THE LAST YEAR PRIMARILY DUE TO THE PROLONGED RECESSION AND TO A LESSER EXTENT FEDERAL BUDGET REDUCTIONS. MOST STATE REVENUE FORECASTS USE NATIONAL ASSUMPTIONS ABOUT GNP GROWTH, INFLATION AND EMPLOYMENT. UNFORTUNATELY, THESE NATIONAL FORECASTS SERIOUSLY UNDERESTIMATED THE LENGTH AND SEVERITY OF THE RECESSION, THROWING STATE REVENUE PROJECTIONS BADLY OFF TARGET. UNTIL THERE IS A STRONG RECOVERY, WE DO NOT EXPECT THE STATES TO IMPROVE THEIR FISCAL SITUATION. THE GOVERNORS ARE CONCERNED ABOUT SPECIFIC CUTS PROPOSED IN THE PRESIDENT'S BUDGET, BUT, OUR MOST PRESSING NEED IS FOR AN EARLY ECONOMIC RECOVERY TO DELIVER STATE AND LOCAL GOVERNMENTS FROM ECONOMIC CRISIS.

ECONOMIC RECOVERY

TO A LARGE EXTENT, ECONOMIC RECOVERY AND, THEREFORE, THE FISCAL PLIGHT OF THE STATES DEPENDS UPON INTEREST RATES REMAINING AT THEIR CURRENT LEVELS OR DECLINING EVEN FURTHER. MOST ECONOMISTS AGREE THAT THE CONSUMER AND, PARTICULARLY, THE INTEREST-SENSITIVE SECTORS OF THE ECONOMY—HOUSING, AUTOMOBILES AND CONSUMER DURABLES—MUST LEAD THE RECOVERY. WITH THE EXCEPTION OF NATIONAL DEFENSE SPENDING, LITTLE OTHER STRENGTH IS EXPECTED IN THE ECONOMY; NET EXPORTS, CAPITAL INVESTMENT AND STATE AND LOCAL SPENDING ARE ALL PROJECTED TO REMAIN WEAK.

LAWRENCE CHIMERINE, CHIEF ECONOMIST FOR CHASE ECONOMETRICS, WROTE LAST WEEK THAT "EXCESSIVE DEFICITS WILL BECOME SELF-DEFEATING BECAUSE THE RESULTING RISE IN INTEREST RATES WILL PROBABLY CAUSE SHARP DECLINES IN THE CREDIT-SENSITIVE INDUSTRIES SUCH AS HOUSING AND AUTOS, REDUCTIONS IN CONSUMER SPENDING IN RESPONSE TO DECLINES IN NET WORTH AND CONSUMER CONFIDENCE, CUTBACKS IN PUBLIC WORKS SPENDING BY MANY MUNICIPAL GOVERNMENTS, BECAUSE THEY IN EFFECT WOULD BE PRICED OUT OF THE BOND MARKET, AND DECLINES IN U.S. EXPORTS AND INCREASED FOREIGN PENETRATION IN U.S. MARKETS REFLECTING UPWARD PRESSURES ON THE U.S. DOLLAR ON FOREIGN EXCHANGE MARKETS."

WHETHER OR NOT INTEREST RATES REMAIN AT THE CURRENT LEVEL DEPENDS NOT ONLY ON FEDERAL RESERVE POLICY, BUT ON THE FINANCIAL

COMMUNITY'S EXPECTATIONS ABOUT FUTURE FEDERAL DEFICITS. AS THE CONGRESSIONAL BUDGET OFFICE HAS POINTED OUT, THE CURRENT POLICY DEFICIT INCREASES FROM ABOUT \$194 BILLION IN 1983 TO ABOUT \$267 BILLION IN 1988 (5.6 PERCENT OF GNP) EVEN THOUGH THE ECONOMY IS EXPECTED TO GROW AT 3 PERCENT TO 4 PERCENT. UNDER A LOW GROWTH ASSUMPTION, DEFICITS COULD REACH \$363 BILLION OR 8.1 PERCENT OF GNP BY 1988.

WITHOUT A MAJOR POLICY CHANGE, THE RISKS ARE HIGH THAT THESE LARGE STRUCTURAL DEFICITS OF 3 PERCENT TO 4 PERCENT OF GNP WILL MAINTAIN UPWARD PRESSURE ON INTEREST RATES, LIMITING BOTH ECONOMIC RECOVERY AND LONG-TERM ECONOMIC GROWTH. IF ECONOMIC RECOVERY IS HAMPERED BY PROJECTIONS OF HIGH FEDERAL DEFICITS THEN STATE FISCAL CONDITIONS CAN ONLY WORSEN.

THE PROSPECT OF LARGE, LONG-RUN STRUCTURAL DEFICITS AND THEIR IMPACT ON OUR CITIZENS AND STATE AND LOCAL GOVERNMENTS IS THE HEART OF OUR CONCERN. WE URGE THIS COMMITTEE AND CONGRESS TO CONSIDER POLICIES WHICH REDUCE THE PROJECTED DEFICITS BY MORE THAN THE PRESIDENT'S BUDGET.

NATIONAL GOVERNORS' ASSOCIATION BUDGET POSITION

THE GOVERNORS MET IN PLENARY SESSION THIS MORNING TO CONSIDER A POLICY PROPOSAL APPROVED BY OUR EXECUTIVE COMMITTEE. IT URGES CONGRESS TO:

1. ADOPT A BUDGET RESOLUTION FOR FISCAL 1984 WHICH REDUCES THE FEDERAL BUDGET TO APPROXIMATELY 2 PERCENT OF GNP OR \$90 BILLION BY 1988. THE 2 PERCENT LEVEL WOULD ELIMINATE MOST OF THE STRUCTURAL DEFICIT AND REPRESENTS THE AVERAGE LEVEL EXPERIENCED OVER THE DECADE OF THE 1970S. IT IS ALSO THE CONSENSUS TARGET ADOPTED BY A BIPARTISAN COMMITTEE OF BUSINESS AND GOVERNMENT LEADERS. IN DEVELOPING THE BUDGET RESOLUTION, MOST DEFICIT REDUCTIONS SHOULD BE FOCUSED ON THE LATTER PART OF 1984 AND THE 1985-88 PERIOD, SO AS NOT TO JEOPARDIZE THE ECONOMIC RECOVERY.
2. ENACT THE AUTHORIZATION, REVENUE AND APPROPRIATION CHANGES IN 1983 TO ACHIEVE REDUCTIONS THROUGHOUT THE 1984-85 PERIOD. SPENDING AND REVENUE CHANGES HAVE A CUMULATIVE EFFECT AND, THEREFORE, CHANGES ARE REQUIRED THIS YEAR TO HAVE EVEN A MODERATE IMPACT ON THE OUT-YEARS. DELAYS IN CORRECTING THE BUDGET IMBALANCE CAN CONTRIBUTE TO UNCERTAINTY WITH RESPECT TO FUTURE INTEREST RATES AND ECONOMIC RECOVERY.
3. ENACT POLICY CHANGES WHICH SHARE THE BURDEN BETWEEN NATIONAL DEFENSE AND DOMESTIC SPENDING REDUCTIONS AND POSSIBLE REVENUE INCREASES AND DO NOT SHIFT ADDITIONAL COSTS TO STATE AND LOCAL GOVERNMENTS.

BASICALLY, THE GOVERNORS APPROVED A STRATEGY WHICH WE BELIEVE IS FAIR IN TERMS OF SHARING THE EXPENDITURE REDUCTION BURDEN BETWEEN DEFENSE AND DOMESTIC SPENDING AND BY PROVIDING RESPONSIBLE REVENUE INCREASES WHERE NECESSARY WHICH WILL NOT DETRACT FROM OUR ECONOMIC RECOVERY GOAL. TO REACH THE 2 PERCENT TARGET, THE GOVERNORS RECOMMEND A SET OF GUIDELINES WHICH WOULD REDUCE THE FEDERAL DEFICIT BY A TOTAL OF \$177 BILLION TO \$90 BILLION IN 1988 THROUGH A COMBINATION OF SPENDING CUTS, REVENUE INCREASES AND INTEREST SAVINGS.

1. SOCIAL SECURITY: ENACT THE BIPARTISAN COMMISSION RECOMMENDATIONS ON SOCIAL SECURITY. THESE RECOMMENDATIONS INCLUDE DELAYING THE COST OF LIVING ADJUSTMENT FROM JULY TO JANUARY, TAXING 50 PERCENT OF OASDI BENEFITS FOR HIGH INCOME INDIVIDUALS, INCREASING THE PAYROLL TAX AND ALLOWING A REFUNDABLE TAX CREDIT, AND INCREASING THE SELF EMPLOYED TAX RATE WITH 50 PERCENT TO BE TAX DEDUCTIBLE. ENACTMENT OF THIS RECOMMENDATION WOULD REDUCE THE PROJECTED 1988 DEFICIT BY \$24 BILLION FROM PROJECTED SPENDING OF \$211 BILLION.

2. NON-DEFENSE DISCRETIONARY SPENDING: RESTRICT THE 1985-1988 INCREASES TO THREE-FOURTHS THE RATE OF INFLATION. THIS CATEGORY INCLUDES GRANTS TO STATE AND LOCAL GOVERNMENTS, ASSISTANCE TO BUSINESS AND COMMERCE, VETERANS' HEALTH CARE, ENVIRONMENTAL REGULATION, RESEARCH AND DEVELOPMENT,

ECONOMIC AND MILITARY ASSISTANCE TO FOREIGN GOVERNMENTS AND MOST OF THE COSTS TO OPERATE THE THREE BRANCHES OF FEDERAL GOVERNMENT. SINCE THIS CATEGORY INCLUDES GRANTS TO STATE AND LOCAL GOVERNMENTS, IN EFFECT, THE STATES ARE AGREEING TO ACCEPT LESS IN REAL TERMS OVER THIS ENTIRE FIVE YEAR PERIOD. SUCH A LONG RUN POLICY WOULD REDUCE THE PROJECTED DEFICIT IN 1988 BY \$11 BILLION FROM THE PROJECTED SPENDING OF \$184 BILLION.

3. MEANS TESTED AND OTHER CRITICAL ENTITLEMENT PROGRAMS: PROVIDE ALMOST FULL FUNDING FOR THESE PROGRAMS INCLUDING AFDC, FOOD STAMPS, MEDICAID, SSI, CHILD NUTRITION, LOW INCOME VETERANS' PENSIONS, GUARANTEED STUDENT LOANS (GSL), FARM PRICE SUPPORTS, SOCIAL SERVICES, GENERAL REVENUE SHARING AND UNEMPLOYMENT INSURANCE. THIS AREA HAS ALREADY RECEIVED FAIRLY SIGNIFICANT BUDGET CUTS DURING THE LAST TWO YEARS; BUT SOME MARGINAL ADJUSTMENTS COULD BE MADE IN THESE PROGRAMS TO SAVE \$2 BILLION FROM A PROJECTED SPENDING OF \$127 BILLION.

4. NON-MEANS TESTED ENTITLEMENT PROGRAMS: RESTRAIN THE GROWTH IN THESE VARIOUS MEDICAL INSURANCE, DISABILITY AND RETIREMENT PROGRAMS FUNDED BY THE FEDERAL GOVERNMENT. THE STATES HAVE HAD TO GRAPPLE WITH MEDICAID AND SIMILAR ENTITLEMENT PROGRAMS. DEFICIT REDUCTIONS APPEAR POSSIBLE IN 1988 OF BETWEEN \$15 AND \$18 BILLION FROM A PROJECTED SPENDING OF \$173 BILLION.

5. NATIONAL DEFENSE: LIMIT NATIONAL DEFENSE TO BETWEEN 4 AND 6 PERCENT REAL GROWTH IN APPROPRIATIONS OVER THE 1984 TO 1985 FISCAL YEARS AND 3-5 PERCENT OVER THE ENTIRE 1984-1988 PERIOD. THE BASELINE AND FIRST BUDGET RESOLUTION FOR FISCAL YEAR 1983 ASSUME APPROXIMATELY 9.5 PERCENT REAL GROWTH OVER THE NEXT TWO YEARS WHICH RESULTS IN A DEFENSE BUDGET OF \$358 BILLION BY 1988. THE ADMINISTRATION HAS PROPOSED SLIGHTLY HIGHER LEVELS. SINCE DEFENSE HAS INCREASED ALMOST 57 PERCENT OVER THE 1981-83 PERIOD SOME SLOWING OF THIS RATE MAY BE APPROPRIATE TO MAINTAIN COST-EFFECTIVENESS IN WEAPONS SYSTEMS AND OTHER PROCUREMENT. THE ESTIMATED RANGE OF DEFICIT REDUCTIONS IN 1988 IS BETWEEN 0 AND \$19 BILLION FROM A PROJECTED SPENDING OF \$358 BILLION.

6. REVENUES: WHILE GOVERNORS DO NOT ENDORSE ANY SPECIFIC PROPOSALS, REVENUES MAY HAVE TO BE INCREASED ENOUGH TO OFFSET THE REMAINING PORTION OF THE DEFICIT TO ATTAIN THE GOAL OF 2 PERCENT OF GNP. REVENUES HAVE ALREADY DECREASED AS A PERCENTAGE OF GNP FROM 20.9 PERCENT IN 1981 TO 19.0 PERCENT IN 1983 AND ARE PROJECTED TO DECREASE TO 18.3 PERCENT BY 1988.

UNDER CURRENT POLICY THE DEFICITS OVER THE 1984-1988 FISCAL YEAR PERIOD WILL TOTAL NEARLY \$1.2 TRILLION WHICH WOULD APPROXIMATELY DOUBLE THE CURRENT FEDERAL DEBT OUTSTANDING. UNDER THE NGA

GUIDELINES THE DEFICITS OVER THIS PERIOD WOULD BE REDUCED BY \$532 BILLION OF WHICH ABOUT \$169 BILLION WOULD REPRESENT DEFICIT REDUCTIONS IN NON DEFENSE PROGRAMS AND \$294 BILLION WOULD REPRESENT A COMBINATION OF NATIONAL DEFENSE REDUCTIONS OR REVENUE INCREASES. AN ADDITIONAL \$69 BILLION WOULD BE SAVED OVER THIS PERIOD FROM LOWER INTEREST COSTS FROM THE DEFICIT REDUCTIONS. THE NGA BUDGET POLICY GUIDELINE PROVIDES FOR A "DOWNWARD GLIDE PATH" TO A DEFICIT OF APPROXIMATELY 2 PERCENT OF GNP BY FISCAL YEAR 1988. THIS WOULD LEAVE A DEFICIT OF ABOUT \$90 BILLION IN FISCAL YEAR 1988 WHICH IS A \$177 BILLION REDUCTION FROM THE BASELINE ESTIMATE OF \$267 BILLION IN FISCAL YEAR 1988. THE YEAR-TO-YEAR REDUCTION AND REMAINING DEFICITS ARE SHOWN BELOW:

<u>Deficit Reductions</u>					
(Billions of dollars by fiscal year)					
	1984	1985	1986	1987	1988
Projected Deficits	197	214	231	250	267
Total Deficit Reduction	27	77	114	137	177
Remaining Deficit	170	137	117	113	90

THIS PROPOSAL RESTRAINS TOTAL FEDERAL SPENDING TO ABOUT 21.5 PERCENT OF GNP IN 1988, WHICH REPRESENTS THE LOWEST RATE SINCE FISCAL YEAR 1979. UNDER THE PROPOSAL, TAX REVENUES AS A PERCENT OF GNP ARE 19 TO 20 PERCENT IN 1988, WHICH IS ABOUT EQUAL TO THE PERCENTAGE IN THE 1970s. MOST IMPORTANTLY, THE RELATIVE GAP BETWEEN REVENUES AND SPENDING AS A SHARE OF GNP DECLINES FROM 5.5 PERCENT UNDER CURRENT

POLICY IN FISCAL YEAR 1988 TO ABOUT 2 PERCENT UNDER THE PROPOSAL IN FISCAL YEAR 1988.

THE POTENTIAL IMPACT OF THE PRESIDENT'S BUDGET ON STATE PROGRAMS

THE CURRENT FISCAL CONDITION OF STATES HAS DETERIORATED RAPIDLY OVER THE LAST YEAR AND THE RISK IS HIGH THAT THE LARGE STRUCTURAL DEFICITS WILL CONSTRAIN THE LONG-AWAITED RECOVERY. EVEN IF THE RECOVERY HAS BEGUN, STATE TAX REVENUES NORMALLY LAG, MAKING NEXT YEAR'S FISCAL OUTLOOK NEARLY AS BLEAK AS THE CURRENT YEAR. GIVEN THESE REVENUE PROBLEMS WE MUST SERIOUSLY QUESTION THE FAIRNESS OF THE ADDITIONAL REDUCTIONS IN STATE AND LOCAL PROGRAMS REQUESTED BY THE PRESIDENT. FURTHER CUTS ARE PARTICULARLY TROUBLESOME BECAUSE THESE PROGRAMS HAVE ALREADY RECEIVED THE LARGEST PERCENTAGE REDUCTIONS OVER THE LAST TWO YEARS. IN ADDITION, UNEMPLOYMENT IS PROJECTED TO CONTINUE TO REMAIN HIGH BY HISTORICAL STANDARDS, PLACING ADDED BURDENS ON STATES.

THE PROPOSED REDUCTION IN THE STATE ADMINISTERED BENEFIT PROGRAMS, WHICH INCLUDES AFDC AND FOOD STAMPS, IS ABOUT \$3.7 BILLION OR 11 PERCENT IN NOMINAL DOLLARS FROM 1983 LEVELS. THIS REPRESENTS A REDUCTION OF ABOUT 16 PERCENT IN REAL TERMS. THESE REDUCTIONS ARE CONCENTRATED IN THE LOW INCOME ENERGY ASSISTANCE BLOCK GRANT WHICH IS DOWN \$675 MILLION, FOOD STAMPS DOWN \$1.1 BILLION, AFDC DOWN \$693 MILLION AND CHILD NUTRITION DOWN \$425 MILLION FROM 1983 LEVELS

AND EVEN MORE RELATIVE TO A CURRENT SERVICES BASE. WHILE MEDICAID SPENDING IS PROPOSED TO INCREASE FROM \$19.3 TO \$20.8 BILLION BETWEEN 1983 AND 1984 THIS IS \$400 MILLION SHORT OF THE FUNDING NECESSARY TO MAINTAIN THESE PROGRAMS UNDER CURRENT LAW. FOR ALL STATE BENEFIT PROGRAMS INCLUDING MEDICAID, SPENDING WOULD HAVE TO BE \$8.6 BILLION HIGHER THAN THE PRESIDENT IS RECOMMENDING JUST TO MAINTAIN THE SAME LEVEL OF SERVICES AS FISCAL YEAR 1981.

NOT ONLY WOULD STATES BE NEGATIVELY IMPACTED BY THE DIRECT BUDGET REDUCTIONS, BUT ADMINISTRATIVE CHANGES RECOMMENDED BY THE PRESIDENT IMPOSE ADDITIONAL COSTS ON THE STATES. FOR EXAMPLE, THE MANDATED JOB SEARCH AND WORK PROGRAMS FOR AFDC MAY BE COSTLY TO STATES. SIMILARLY, THE PROPOSED MODIFICATIONS TO THE ERROR RATES FROM 7 PERCENT TO 3 PERCENT FOR FOOD STAMPS COULD COST THE STATES UP TO 400 MILLION IN FISCAL YEAR 1984.

GOVERNORS WANT TO BE HELPFUL IN REDUCING FEDERAL GRANT SPENDING, AND WILL CONTINUE TO WORK WITH THE CONGRESS AND THE ADMINISTRATION TO FIND MORE EFFICIENT WAYS OF DELIVERING STATE ADMINISTERED PROGRAMS TO ITS CITIZENS. HOWEVER, CONTINUED FEDERAL BUDGET REDUCTIONS WHICH WE MUST OFFSET THROUGH INCREASED TAXES ARE OF LITTLE VALUE TO EITHER LEVEL OF GOVERNMENT.

CONCLUSION

OUR MOST CRITICAL CONCERN IS ECONOMIC RECOVERY AND SUSTAINED ECONOMIC GROWTH. THE SPECTER OF LARGE OUT-YEAR FEDERAL BUDGET DEFICITS, HOWEVER, INCREASES THE RISK THAT INTEREST RATES WILL RATCHET UP AGAIN AS ECONOMIC RECOVERY BEGINS AND ABORT FULL RECOVERY. PRUDENT BUDGETING REQUIRES CONGRESS TO PURSUE A BUDGET STRATEGY WHICH SUBSTANTIALLY LOWERS THE OUT-YEAR DEFICITS.

THE NATIONAL GOVERNORS' ASSOCIATION SUGGESTS A TARGET DEFICIT OF 2 PERCENT OF GNP BY 1988--A TARGET WE BELIEVE IS REALISTIC AND WHICH CONGRESS CAN ACCOMMODATE THROUGH JUDICIOUS EXPENDITURE REDUCTIONS AND REVENUE INCREASES. WE URGE CONGRESS TO ADOPT A FIRST BUDGET RESOLUTION AND ENACT LEGISLATION THIS YEAR AIMED AT REDUCING BY \$177 BILLION THE 1988 DEFICIT TO \$90. IN ATTAINING THIS GOAL THE ASSOCIATION FURTHER URGES CONGRESS TO REDUCE 1988 NON DEFENSE SPENDING BY \$55 BILLION WITH NATIONAL DEFENSE REDUCTIONS OR POSSIBLE REVENUE INCREASES, MAKING UP THE REMAINING REDUCTIONS NEEDED AFTER THE INTEREST SAVING OF \$30 BILLION IN THAT YEAR. ONLY IF CONGRESS ACTS DECISIVELY TO SUBSTANTIALLY REDUCE THE OUT-YEAR DEFICITS CAN WE ENSURE THE ECONOMIC RECOVERY SO NEEDED BY THE STATES AND OUR CITIZENS.

STATES ARE ALSO CONCERNED THAT WE ARE BEING ASKED AGAIN IN FISCAL 1984 TO ABSORB A LION'S SHARE OF THE PRESIDENT'S BUDGET REDUCTIONS. BUDGETS ARE SO TIGHT THAT WE CAN ONLY ABSORB SUCH REDUCTIONS BY

INCREASING TAXES. ONE MUST QUESTION A FEDERAL BUDGET STRATEGY WHICH MERELY SHIFTS TAX BURDENS FROM FEDERAL REVENUE SOURCES TO STATE REVENUE SOURCES. ACCORDINGLY, WE HOPE THAT THIS COMMITTEE WILL MODIFY THE PRESIDENT'S REQUEST SO THAT THE HARDSHIP OF BUDGET AND TAX CHANGES IS MORE EQUITABLY DISTRIBUTED.

THE GOVERNORS WANT TO WORK WITH YOU AND SUPPORT YOUR EFFORTS TO REACH A FAIR BUDGET. WE ARE VERY SERIOUS ABOUT OUR RECOMMENDED BUDGET GUIDELINES BECAUSE WE HAVE A VERY LARGE STAKE IN THE FINAL BUDGET DECISIONS. THE GOVERNORS SEEK A CONSTRUCTIVE ROLE IN YOUR EFFORTS TO ACHIEVE ECONOMIC RECOVERY.

THANK YOU.

Mr. WIRTH. Thank you very much, Governor Matheson. Let me assure you that we need all the help we can get, both in terms of ideas, politics, protection, and so on. I am especially struck by your item 4 on the limitation of growth for non-means-tested programs. As you know, that is the alleged so-called middle class entitlements programs which are perhaps the toughest numbers on your whole list.

We will include your statement and that of Governor Thompson and Governor Lamm, in full, in the record. Governor Thompson.

STATEMENT OF HON. JAMES R. THOMPSON, GOVERNOR, STATE OF ILLINOIS

Mr. THOMPSON. Thank you, Mr. Chairman. In addition to the budget resolution which the Governors adopted today, they also adopted a resolution which speaks to the issue of job creation, something which is currently occupying the attention of the Congress on both the fast-track and a session-long track basis, I assume, and we have some preliminary suggestions on the issue of job creation infrastructure and unemployment compensation insurance.

Let me just highlight those three areas. You have my formal testimony for the record.

Obviously, of the 11 million people out of work today in the United States, some are but temporary victims of recession, and some are casualties of structural changes in the economy or structural changes in the industry in which they were formerly employed, and their jobs will never return.

We have been attempting to develop a policy to assist the Congress in sorting out the jobs creation bills that we know you will be facing, on both the short-term and long-term basis.

Speaking to the category of what is generically labeled as emergency jobs legislation, while the National Governors' Association has no position for or against any pending bill, as a body, we believe that there are certain principles by which emergency jobs should be tested.

First, that the program not be financed at the expense of existing programs or Federal assistance to State and local governments.

Second, that the program should be flexible, should be labor-intensive, should be targeted to areas of greatest need, and should, of course, produce results as quickly as possible.

We believe that legislation should use State and local governments as conduits for funding, thereby building on their existing knowledge and experience and capability, and that legislation should include block grants to the States, for we believe that States have the capacity and flexibility to address problems that cross local jurisdictional boundaries and can respond quickly to area economic needs. We also believe that there should be no requirement of a non-Federal match.

The Governors also recommend that any short-term program using States as a conduit for funding should also require States and local governments to commit the funds within a specified period of time, give priority in hiring to persons who have been unemployed for the longest periods of time, emphasize aid to areas within the

State most severely hit by unemployment and, to the extent possible, avoid displacement of current workers.

In addition to these principles for short-term jobs legislation, we believe it is imperative that long-term actions be taken to insure that economic recovery is lasting, and that we deal with the problems of structural unemployment.

This compels the development of a comprehensive national employment policy, such a policy to include a combination of the economic development strategies and an emphasis on job training for permanent employment, with specific components like assistance for displaced workers, youth school-to-work transition assistance so that we are not front-loading the unemployment with youngsters fresh out of school, improved vocational education assistance, private sector involvement, and we are pleased by the administration and congressional proposals to increase funding for title 3 of the Jobs Training Partnership Act for the training of displaced workers.

That brings us to the issue of infrastructure, something very much on the Nation's mind, and something of which we are reminded every time we hit a pothole on a highway, or see a crumbling bridge or building, every time we see a sidewalk that is leaning inward instead of resting level.

Obviously, the condition of the Nation's infrastructure has an intense bearing on employment, a direct and an indirect bearing. Capital improvements and construction directly create jobs. I think that principle is in the process now of being recognized by the House. That is highly cyclical employment, however, and, of course, on an indirect basis, jobs in any area rely on infrastructure facilities and off-labor employment is created.

It is becoming increasingly obvious that our infrastructure, nationwide, is existing on borrowed time. It is suffering from years of deferred maintenance and repair, and the cost of upgrading and rebuilding, when all is taken into account, comes into trillions of dollars.

Current financing mechanisms, therefore, probably cannot do the job, and new ones are needed. We have been examining, but have reached no conclusions yet—this is work that we intend to do during the course of the spring, in time for our summer meeting—on proposals, some of which are pending in the Congress—for example, for the Congress; different kinds of bonding proposals and which have been put forward before, for capital budgeting, for example, For the Congress; different kinds of bonding proposals and more private sector involvement.

Even though we do not have yet a formal infrastructure policy, and hope to have one by this summer, it will obviously require a mixture of approaches, both on the financing and on the construction side, a great deal of administrative flexibility and, obviously, a partnership between all levels of government and the private sector.

I make one more point, Mr. Chairman, members of the committee, the Nation's unemployment insurance system is the first, and obviously most direct step in dealing with the problems of the unemployed during recession.

For every public dollar that the Congress will spend providing emergency or accelerated employment, another \$6 will probably be spent in providing day to day economic security to those receiving unemployment insurance benefits.

Despite the more hopeful forecast for economic recovery, whether one agrees on the target figure of 3, 4, or 5 percent of increase in GNP in this next year, State and Federal spending for unemployment insurance will continue to grow for the foreseeable future since obviously employment is the last economic indicator to come out of recession.

That is particularly true for those States who have suffered a great deal of so-called structural unemployment whose basic industries like steel, and farm implements, and heavy machinery and agribusiness are changing.

The industrial heartland, of which Illinois is a part, is, of course, the hardest hit, but the problem is spreading across the Nation.

The Department of Labor, for example, estimates that as many as 30 States will be forced to borrow this year to finance unemployment insurance benefits during fiscal year 1983. The pain of absorbing this increasing financial burden has accelerated as States are forced not only to continue to raise new revenues to finance benefits, but also for the first time, beginning in the next fiscal year, to pay interest to the Federal Government on the funds borrowed.

The agreement we reached with the Congress in 1981 to finance unemployment trust fund borrowing with 10 percent interest under certain circumstances, a congressional solution designed to spur States to put their revenues in line with their expenditures, was, quite frankly, Mr. Chairman and members of the committee, premised on the economic assumptions of everyone in 1981, which have turned out, as our chairman has said, not to be true.

And without fault, I believe, on the part of States, many of whom brought basic reform to their unemployment systems in 1981—Illinois did, for example, one-half billion dollars' worth, Pennsylvania did and other States have and are in the process of doing it again—that provision for 10 percent interest payments which, I assume, was adopted in part to cope with the mounting Federal deficit and in part to spur the States to reform so that we would not have high payment-low tax systems out among the States at no cost to individual States, has, quite frankly, turned, as former colleague now Governor of Michigan, Governor Blanchard, has said, into a tax on unemployment.

A tax on unemployment in the midst of this Nation's worst recession since the thirties is very hard for us to bear. In my own State, alone, without substantial changes in both State and Federal law, for example, Illinois will owe to the Federal Government, during the course of the next decade, more than \$1 billion of interest payments, which must be financed, of course, from our general revenue fund whose revenue is principally fueled by the income tax and the sales taxes has been declining, not increasing, and so interest payments to the Federal Government, as the price of borrowing, compete directly with funds necessary for law enforcement, education, assistance for senior citizens, battered children, and other programs financed from State general revenue funds.

We are not a high benefit-low tax State. As I say, we initiated nearly \$500 million worth of reform in 1981. It is now a \$1.5 billion problem in Illinois. The House and Senate leadership and I have combined, to come together on a nonpartisan-bipartisan basis, to go to both industry and labor and say, "We'll give you 2 weeks to solve this problem, else we will take it over and solve it for you."

We recognize the need to further reform Illinois' laws, but our taxes are significantly above the national average, and even had we been paying benefits at the national average, we would still have a problem of almost as severe magnitude.

Obviously, this is a partnership program of the first order. Other States—Pennsylvania, Ohio, Michigan, Minnesota, Louisiana, and others—are facing it. It falls within the jurisdiction, obviously, of other committees as well, but it is something that I think the Budget Committee must keep in mind as part of comprehensive policy toward unemployment. Thank you very much.

[Testimony resumes on p. 75.]

[The prepared statement of Governor Thompson follows:]

PREPARED STATEMENT OF GOV. JAMES. R. THOMPSON

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM JIM THOMPSON, GOVERNOR OF ILLINOIS AND VICE-CHAIRMAN/CHAIRMAN-ELECT OF THE NATIONAL GOVERNORS' ASSOCIATION. I AM PLEASED TO APPEAR BEFORE THE EXPANDED MEMBERSHIP OF THE COMMITTEE ALONG WITH GOVERNORS MATHESON AND LAMM AS YOU CONSIDER ACTION ON THE FY '84 BUDGET. I AM HERE TO ADDRESS TWO ISSUES OF CONCERN TO THE NATION'S GOVERNORS: JOB CREATION INITIATIVES AND UNEMPLOYMENT INSURANCE.

THE NATIONAL GOVERNORS' ASSOCIATION JUST TODAY HAS ADOPTED A POLICY ON JOBS CREATION INITIATIVES TO HELP GUIDE FEDERAL EFFORTS TO ADDRESS THE NATION'S CRITICAL UNEMPLOYMENT PROBLEM. I WOULD LIKE TO BRIEFLY PROVIDE YOU WITH A SUMMARY OF OUR POLICY IN THIS AREA, HIGHLIGHTING ITS PRINCIPLES AND THE BASIS UPON WHICH IT WAS FORMULATED.

MORE THAN 11 MILLION WORKERS ARE CURRENTLY UNEMPLOYED. SOME OF THESE WORKERS ARE TEMPORARY VICTIMS OF THE RECESSION, BUT OTHERS ARE CASUALTIES OF STRUCTURAL CHANGES IN THE ECONOMY WITH THEIR FORMER JOBS LOST FOREVER. WHILE THE FIRST CATEGORY OF UNEMPLOYMENT COULD BE ADDRESSED WITH SHORT-TERM MEASURES, LONG-TERM SOLUTIONS ARE ESSENTIAL FOR ANY PERMANENT JOB REPLACEMENT AND ECONOMIC RECOVERY.

THE GOVERNORS ARE ANXIOUS TO WORK WITH CONGRESS AND THE ADMINISTRATION IN DEVELOPING STRATEGIES TO DEAL WITH BOTH THESE ASPECTS OF UNEMPLOYMENT.

EMERGENCY JOBS LEGISLATION

FOR THE SHORT TERM, WE ASK YOU TO CONSIDER THE FOLLOWING PRINCIPLES ADOPTED BY NGA, FOR ANY EMERGENCY JOBS PROGRAM:

- THE PROGRAM SHOULD NOT BE FINANCED AT THE EXPENSE OF EXISTING PROGRAMS OF FEDERAL ASSISTANCE TO STATE AND LOCAL GOVERNMENT. THESE PROGRAMS HAVE ALREADY TAKEN MORE THAN THEIR SHARE OF CUTS.
- THE PROGRAM SHOULD BE FLEXIBLE, LABOR INTENSIVE, TARGETED TO AREAS OF GREATEST NEED AND SHOULD PRODUCE RESULTS AS QUICKLY AS POSSIBLE.
- IT SHOULD USE STATE AND LOCAL GOVERNMENTS AS CONDUITS FOR FUNDING, BUILDING ON THEIR EXISTING KNOWLEDGE, EXPERIENCE, AND CAPABILITY.
- IT SHOULD INCLUDE BLOCK GRANTS TO STATES — FOR STATES HAVE THE CAPACITY AND FLEXIBILITY TO ADDRESS PROBLEMS THAT CROSS LOCAL JURISDICTIONAL BOUNDARIES AND CAN RESPOND QUICKLY TO AREA ECONOMIC NEEDS.

- IT SHOULD NOT REQUIRE A NON-FEDERAL MATCH.

WE FULLY RECOGNIZE THAT THE AGREEMENT BETWEEN CONGRESSIONAL LEADERSHIP AND THE ADMINISTRATION HAS MOVED A SHORT-TERM JOBS INITIATIVE TO THE FAST TRACK. NONETHELESS, THE GOVERNORS FIRMLY BELIEVE THAT THIS AND OTHER EMERGENCY EMPLOYMENT PROGRAMS SHOULD BE MEASURED AGAINST THESE PRINCIPLES. WITH THAT IN MIND, WE WOULD RECOMMEND THAT IN ORDER TO RESPOND TO THESE PRINCIPLES, ANY SHORT-TERM, EMERGENCY JOBS PROGRAM USING STATES AS A CONDUIT FOR FUNDING SHOULD REQUIRE STATES AND LOCAL GOVERNMENTS TO:

- COMMIT FUNDS WITHIN A SPECIFIED PERIOD OF TIME. IF ANY STATE OR LOCAL GOVERNMENT IS UNABLE TO FULLY USE SUCH BLOCK GRANT FUNDS WITHIN THE GUIDELINES SPECIFIED, THE FUNDS SHOULD BE REALLOCATED TO THE STATE GOVERNMENT OR THE LOCAL ENTITIES WITHIN THE STATE WHICH ARE READY TO UTILIZE THEM;
- GIVE PRIORITY IN HIRING TO PERSONS WHO HAVE BEEN UNEMPLOYED FOR LENGTHY PERIODS;
- EMPHASIZE AID TO AREAS WITHIN THE STATE MOST SEVERELY AFFECTED BY UNEMPLOYMENT;
- AVOID DISPLACING CURRENT WORKERS.

THESE REQUIREMENTS WOULD ASSURE THE MOST EFFICIENT AND EFFECTIVE USE OF SUCH FUNDS.

LONG-TERM EMPLOYMENT AND TRAINING

IN ADDITION TO FRAMING GUIDELINES FOR EMERGENCY JOBS INITIATIVES, THE NGA POLICY EMPHASIZES THAT LONG-TERM ACTIONS WILL BE NECESSARY TO ENSURE THAT THE ECONOMIC RECOVERY IS LASTING AND THAT IT IS BROAD ENOUGH TO DEAL WITH THE PROBLEMS OF STRUCTURAL UNEMPLOYMENT.

THE GOVERNORS BELIEVE THAT DEVELOPMENT OF A COMPREHENSIVE NATIONAL EMPLOYMENT POLICY MUST BE ASSIGNED THE SAME LEVEL OF PRIORITY BY THE FEDERAL GOVERNMENT AS NATIONAL DEFENSE, THE MAINTENANCE OF A SOUND CURRENCY, AND SUPPORT OF A HEALTHY ECONOMY. ABOVE ALL, WE CERTAINLY NEED TO STREAMLINE THE FEDERAL RESPONSE TO UNEMPLOYMENT.

AN EFFECTIVE, LONG-TERM POLICY MUST INCLUDE A COMBINATION OF ECONOMIC DEVELOPMENT STRATEGIES AND MUST EMPHASIZE JOB TRAINING FOR PERMANENT EMPLOYMENT. TO THIS END, WE RECOMMEND THAT CONGRESS BEGIN NOW TO DEVELOP A FLEXIBLE SYSTEM THAT CREATES JOB SKILLS TO MATCH FUTURE JOB OPPORTUNITIES. SUCH A PLAN SHOULD INCLUDE THE FOLLOWING COMPONENTS:

- ASSISTANCE FOR DISPLACED WORKERS: A PACKAGE OF RETRAINING, JOB SEARCH AND RELOCATION ASSISTANCE SHOULD

BE AVAILABLE FOR THOSE WHO ARE RECEIVING BENEFITS OR HAVE EXHAUSTED THEIR BENEFITS AND ARE UNLIKELY TO RETURN TO THEIR PREVIOUS JOBS. THE PACKAGE WOULD INCLUDE UNEMPLOYMENT INSURANCE TO BRIDGE THE TRANSITION FROM JOB TO JOB; RETRAINING TO IMPROVE PERSONAL OCCUPATIONAL SKILLS; AND COUNSELING, JOB SEEKING, AND RELOCATION ASSISTANCE TO MOVE THE INDIVIDUAL FROM A LOST JOB TO A NEW JOB. TO THIS END, WE ARE ENCOURAGED BY AND SUPPORT PROPOSALS BY THE ADMINISTRATION AND CONGRESS TO INCREASE FUNDING FOR TITLE III OF THE JOBS TRAINING PARTNERSHIP ACT (JTPA) FOR THE TRAINING OF DISPLACED WORKERS.

- YOUTH SCHOOL-TO-WORK TRANSITION ASSISTANCE: A SCHOOL-TO-WORK TRANSITION PROGRAM IS NEEDED TO PREVENT THE FRONT END LOADING OF THE UNEMPLOYMENT LINES THAT OCCURS WHEN YOUNG PEOPLE GRADUATE FROM HIGH SCHOOL AND CANNOT FIND OR DO NOT HAVE THE SKILLS TO GET A JOB.
- IMPROVED VOCATIONAL EDUCATION SYSTEM: TO FURTHER ASSIST LOCAL EDUCATIONAL AGENCIES, FEDERAL VOCATIONAL EDUCATION AND ECONOMIC DEVELOPMENT ASSISTANCE FUNDS SHOULD BE TARGETED UPON IMPROVING TRAINING FACILITIES AND PROGRAMS IN OUR VOCATIONAL EDUCATION SYSTEM. IN ORDER TO ACCOMMODATE THE MASSIVE RETRAINING EFFORT NEEDED OVER THE NEXT DECADE, THE VOCATIONAL EDUCATION SYSTEM MUST BE EXPANDED AND STRENGTHENED.

- PRIVATE SECTOR INVOLVEMENT: PRIVATE SECTOR EMPLOYERS SHOULD BE ENCOURAGED TO PROVIDE THEIR EMPLOYEES WITH NEW SKILLS TRAINING AND BASIC REMEDIAL EDUCATION.

THE GOVERNORS ARE COMMITTED TO WORKING WITH THE PRESIDENT AND CONGRESS FOR AN EFFECTIVE EMERGENCY JOBS PROGRAM. WE ARE FURTHER COMMITTED TO WORKING WITH NATIONAL LEADERS TO SOLVE THE LONGER TERM UNEMPLOYMENT PROBLEMS FACING OUR NATION THROUGH SUSTAINED ECONOMIC GROWTH AND RELATED GOVERNMENT INITIATIVES.

INFRASTRUCTURE

THE GOVERNORS RECOGNIZE THAT A MAJOR UNDERPINNING TO ANY LONG-TERM JOBS OUTLOOK IS THE NATION'S COLLECTIVE INFRASTRUCTURE INVESTMENTS. OUR INFRASTRUCTURE IS EXISTING ON BORROWED TIME. AGING AND DEFERRED MAINTENANCE HAVE ACCUMULATED INTO PROBLEMS OF IMMENSE PROPORTION. THE COST OF REBUILDING THE NATION'S CRUMBLING AND INADEQUATE ROADS AND BRIDGES, WATER SUPPLY AND SEWER SYSTEMS, PUBLIC BUILDINGS AND OTHER FACILITIES NECESSARY FOR GROWTH AND PRODUCTIVITY IS ESTIMATED AT TRILLIONS OF DOLLARS.

INFRASTRUCTURE HAS BOTH A DIRECT AND AN INDIRECT BEARING ON EMPLOYMENT. CAPITAL IMPROVEMENTS AND CONSTRUCTION DIRECTLY CREATE JOBS. THAT KIND OF EMPLOYMENT IS, HOWEVER, HIGHLY CYCLICAL BECAUSE INFRASTRUCTURE INVESTMENTS UNDER CURRENT MECHANISMS ARE CLOSELY

AFFECTED BY ECONOMIC CONDITIONS. ECONOMIC DOWNTURNS CUT INTO PUBLIC REVENUES USED TO FINANCE INFRASTRUCTURE PROJECTS. MOREOVER, JOBS IN ANY AREA RELY ON INFRASTRUCTURE FACILITIES. HOUSING CONSTRUCTION CANNOT BE UNDERTAKEN WITHOUT THE PREREQUISITE SEWER AND WATER SUPPLY SYSTEMS IN PLACE. A FACTORY CANNOT BE BUILT WITHOUT TRANSPORTATION FACILITIES PROVIDING ACCESS FOR WORKERS AND RAW MATERIALS AND ENABLING THE EFFICIENT DISTRIBUTION OF FINISHED PRODUCTS.

CURRENT MECHANISMS FOR FINANCING INFRASTRUCTURE IMPROVEMENTS ARE CLEARLY INADEQUATE TO MEET THE CHALLENGE OF THE FUTURE. MORE STABLE AND INDEPENDENT FINANCING ALTERNATIVES WOULD PRESERVE THE INFRASTRUCTURE SYSTEMS' ABILITY TO SUPPORT RATHER THAN HINDER ECONOMIC PRODUCTIVITY.

I AM AWARE THAT THIS COMMITTEE IS WELL VERSED IN MANY OF THE MOST RECENT INFRASTRUCTURE PROPOSALS. PARTICULARLY PROMISING ARE THE FOLLOWING CONCEPTS:

- INFRASTRUCTURE BANKS — PROPOSALS HAVE BEEN MADE FOR BOTH STATE AND FEDERAL INFRASTRUCTURE BANKS. FOR THE FORMER, STATES WOULD SET UP AND ADMINISTER REVOLVING LOAN PROGRAMS, FUNDED INITIALLY WITH FEDERAL GRANTS AND STATE DOLLARS, FROM WHICH MONEY COULD BE BORROWED TO FINANCE INFRASTRUCTURE IMPROVEMENTS. THIS CONCEPT HAS

GREAT POTENTIAL FOR STRETCHING LIMITED RESOURCES AND FOR ENCOURAGING STATE AND LOCAL RESPONSIBILITY AND INITIATIVE. FEDERAL INFRASTRUCTURE BANKS EXPAND ON THIS PRINCIPLE, POOLING FEDERAL AND STATE RESOURCES TO MAXIMIZE BORROWING POTENTIAL.

- CAPITAL BUDGETING — A FEDERAL CAPITAL BUDGET WOULD FORCE US TO LOOK AT THE NATION'S TOTAL INFRASTRUCTURE CONDITION AND HOPEFULLY WOULD LEAD US TO MAKE MORE RATIONAL LONG-TERM PUBLIC POLICY. USED EITHER AS AN INTEGRAL PART OF APPROPRIATIONS OR AN INFORMATIONAL TOOL TO GUIDE THE BUDGET PROCESS, IT HAS GREAT VALUE FOR ALLOWING THE PUBLIC AND DECISION-MAKERS TO SEE THE TOTAL PICTURE.
- BONDING REFINEMENT — THE AREA OF BOND FINANCING HAS GREAT POSSIBILITIES FOR LOCAL, STATE AND FEDERAL GOVERNMENT COOPERATION. THE PROPOSALS INCLUDE SUCH PROVISIONS AS THE POOLING OF SMALL LOCAL ISSUES INTO LARGER STATE-SPONSORED ISSUES TO REDUCE INTEREST RATES AND TO LOWER MARKETING COSTS.
- PRIVATE SECTOR INVOLVEMENT — THIS IS AN AREA OF GREAT POTENTIAL THAT NEEDS TO BE CONTINUALLY PROMOTED. TWO CURRENT PROGRAMS INVOLVING THE PRIVATE SECTOR HAVE BEEN

USED WITH GREAT SUCCESS -- TAX LEASEBACK OPTIONS AND TAX INCREMENT FINANCING. BOTH OPTIONS EASE THE CASH FLOW PROBLEMS FOR LOCAL GOVERNMENTS WHILE ALLOWING THEM TO MOVE AHEAD ON INFRASTRUCTURE PROJECTS WHICH SUSTAIN AND FOSTER THEIR ECONOMIC BASE. WE NEED TO DEVELOP ADDITIONAL PROPOSALS WHICH TRULY ENCOURAGE A PRODUCTIVE PUBLIC-PRIVATE PARTNERSHIP.

THE GOVERNORS ARE NOW DEVELOPING A FORMAL INFRASTRUCTURE POLICY, BUT IT IS NOT YET AVAILABLE FOR ME TO PRESENT TO YOU. I PERSONALLY BELIEVE THAT AN EFFECTIVE RESPONSE TO THESE PROBLEMS MUST EMBRACE THREE PRINCIPLES.

- FIRST, IT MUST INCORPORATE A MIXTURE OF APPROACHES. NO SINGLE PROPOSAL SHOULD BE VIEWED AS A DO-ALL, CURE-ALL.
- SECOND, IT MUST REQUIRE GREAT ADMINISTRATIVE FLEXIBILITY TO MEET THE VASTLY DIFFERENT INFRASTRUCTURE NEEDS AND FUNDING CAPABILITIES OF THE STATES AND THEIR LOCAL GOVERNMENTS.
- FINALLY, IT MUST BE BASED ON COOPERATION AND PARTNERSHIP AMONG LOCAL, STATE AND FEDERAL GOVERNMENTS AND THE PRIVATE SECTOR. NO SINGLE ENTITY CAN GO IT ALONE.

IMPLEMENTING SUCH AN UNDERTAKING WILL TAKE UNPRECEDENTED EFFORTS AND COOPERATION. WE DO NOT REALLY HAVE A CHOICE. WE MUST MOVE AHEAD TO REBUILD THE BASIC SUPPORT SYSTEM OF OUR ECONOMY.

CONGRESS AND THE ADMINISTRATION ARE NOW DEVELOPING A SHORT-TERM RESPONSE TO UNEMPLOYMENT, AND WE URGE THAT YOU SOON TURN YOUR ATTENTION TO LONG-TERM JOBS LEGISLATION. IN THE MEANTIME, HOWEVER, THE BURDEN OF UNEMPLOYMENT HAS FALLEN TO STATE UNEMPLOYMENT FUNDS FORCED BEYOND THE LIMITS OF SOLVENCY BY THE NATIONAL RECESSION.

UNEMPLOYMENT INSURANCE

AS IMPORTANT AS JOBS LEGISLATION IS, THE NATION'S UNEMPLOYMENT INSURANCE SYSTEM IS OUR FIRST DEFENSE IN OUR BATTLE AGAINST UNEMPLOYMENT. FOR EVERY PUBLIC DOLLAR WE MAY SPEND IN PROVIDING EMERGENCY OR ACCELERATED EMPLOYMENT, ANOTHER SIX DOLLARS WILL PROBABLY BE SPENT IN PROVIDING ECONOMIC SECURITY TO THOSE WHO MUST DEPEND UPON UNEMPLOYMENT INSURANCE BENEFITS.

DESPITE NOW OPTIMISTIC FORECASTS FOR ECONOMIC RECOVERY, STATE AND FEDERAL SPENDING FOR UNEMPLOYMENT INSURANCE WILL CONTINUE TO INCREASE FOR THE FORESEEABLE FUTURE. THREE YEARS OF RECORD UNEMPLOYMENT INSURANCE EXPENDITURES HAVE LEFT THE UNEMPLOYMENT INSURANCE SYSTEM IN THE THROES OF A SEVERE AND EVER-GROWING FINANCIAL CRISIS.

THE STATES OF AMERICA'S INDUSTRIAL HEARTLAND FACE THE MOST SERIOUS PROBLEMS AS THEY HAVE BORROWED HEAVILY FROM THE FEDERAL GOVERNMENT. BUT EVEN THOSE STATES WHICH A FEW YEARS AGO HAD SEEMINGLY INEXHAUSTIBLE UNEMPLOYMENT INSURANCE FINANCIAL RESERVES ARE NOW FACING THE PROSPECT OF FEDERAL BORROWING TO SHORE-UP THEIR BENEFIT STRUCTURES. ACCORDING TO DEPARTMENT OF LABOR ESTIMATES, AS MANY AS 30 STATES WILL BE FORCED TO BORROW FUNDS FROM THE FEDERAL GOVERNMENT TO FINANCE UNEMPLOYMENT INSURANCE BENEFITS DURING FY 1983.

WITH NATIONAL UNEMPLOYMENT PROJECTED TO REMAIN IN DOUBLE DIGITS FOR THE NEXT 18 MONTHS, THIS PRESS FOR UNEMPLOYMENT INSURANCE BORROWING WILL NOT SOON DIMINISH. FOR STATES LIKE MICHIGAN, ILLINOIS, PENNSYLVANIA, AND OHIO, ALREADY OVERWHELMING UNEMPLOYMENT INSURANCE DEBTS TO THE FEDERAL GOVERNMENT WILL SWELL EVEN FURTHER AS THE IMPACT OF LONG-TERM STRUCTURAL UNEMPLOYMENT TIGHTENS ITS GRIP.

AND, THE PAIN OF ABSORBING THIS INCREASING FINANCIAL BURDEN IS NOW ACCELERATED AS STATES ARE FORCED NOT ONLY TO CONTINUE TO RAISE NEW REVENUES TO FINANCE BENEFITS, BUT TO PAY INTEREST TO THE FEDERAL GOVERNMENT ON THE FUNDS BORROWED TO FINANCE BENEFITS. IN ILLINOIS, ABSENT MAJOR CHANGES IN STATE AND FEDERAL LAW, WE ESTIMATE THAT INTEREST PAYMENTS FOR EXISTING AND FUTURE FEDERAL ADVANCES WILL EXCEED \$1 BILLION DURING THE DECADE OF THE 1980'S. AND, PAYING THIS SUM

WOULD DO NOTHING TO RETIRE ANY OF THE PRINCIPAL OF OUR DEBT. THE DEBT ITSELF MUST BE BORNE BY THE ALREADY STRAPPED EMPLOYERS OF OUR STATE WHO FACE STEEP AND ACCELERATING FEDERAL FUTA TAX CREDIT LOSSES.

THERE ARE THOSE WHO SEE HIGH BENEFITS AND LOW TAXES AS THE ROOT CAUSE OF THIS DILEMMA. YET, MANY STATES HAVE CHANGED STATE LAWS TO ATTEMPT TO ACHIEVE SOLVENCY. IN 1981, ILLINOIS ENACTED \$500 MILLION IN BENEFIT REDUCTIONS AND TAX INCREASES TO BOLSTER OUR UNEMPLOYMENT INSURANCE SYSTEM. THESE STRUCTURAL CHANGES WOULD HAVE BROUGHT US TO SOLVENCY IN 1983 HAD THE NATIONAL ECONOMIC FORECASTS UPON WHICH THESE CHANGES WERE BASED MATERIALIZED.

ILLINOIS UNEMPLOYMENT INSURANCE TAXES NOW STAND A FULL 25 PERCENT ABOVE THE NATIONAL AVERAGE. BECAUSE OUR AVERAGE WEEKLY WAGE IS RELATIVELY HIGH, OUR BENEFIT PAYMENTS ARE ABOVE THE NATIONAL AVERAGE. BUT EVEN IF ILLINOIS ONLY PAID THE NATIONAL AVERAGE BENEFIT AMOUNT, IN 1982 WE WOULD STILL HAVE BEEN FORCED TO BORROW NEARLY \$550 MILLION FROM THE FEDERAL UNEMPLOYMENT INSURANCE TRUST FUND. HIGH UNEMPLOYMENT IS OUR PROBLEM, NOT HIGH BENEFITS.

OUR STATE IS NOT ALONE IN HAVING MADE UNEMPLOYMENT INSURANCE REFORMS. PENNSYLVANIA, OHIO, MINNESOTA, LOUISIANA AND OTHERS HAVE ENACTED REFORMS ONLY TO SEE THE EFFECT OF THEIR EFFORTS ERODED BY RISING UNEMPLOYMENT. LAST FALL, MICHIGAN UNDERTOOK DRASTIC TAX AND BENEFIT CHANGES AND ALREADY THESE CHANGES ARE SEEN BY MICHIGAN AS INSUFFICIENT TO PREVENT FURTHER SUBSTANTIAL BORROWING.

ALL THIS IS IN THE PAST, HOWEVER, AND STATES MUST AGAIN ACT TO RESTORE LONG-TERM UNEMPLOYMENT INSURANCE SOLVENCY. FURTHER BENEFIT CURTAILMENT AND TAX INCREASES ARE A NECESSITY. WE HAVE ALREADY BEGUN A NEW ROUND OF STATE UNEMPLOYMENT INSURANCE REFORM IN ILLINOIS. ONCE AGAIN WE ARE BRINGING TOGETHER THE LEADERS OF BUSINESS, LABOR AND OUR GENERAL ASSEMBLY TO THRASH OUT WHAT WILL BE MAJOR FINANCIAL SACRIFICES.

WE WILL AGAIN ENACT SOLVENCY REFORMS. BUT AS WE DO SO, WE REACH THE INESCAPABLE CONCLUSION THAT WE ARE IN PARTNERSHIP WITH THE FEDERAL GOVERNMENT IN THIS PROGRAM, AND THAT THE FEDERAL END OF THE PARTNERSHIP MUST SHARE IN THE COSTS OF ACHIEVING FINANCIAL SOLVENCY.

NO AMOUNT OF STATE BENEFITS AND TAX CHANGES COULD HAVE PREVENTED THE SEVERITY OF OUR PRESENT PLIGHT. ONLY THE FEDERAL GOVERNMENT CAN IMPLEMENT POLICIES TO DEAL EFFECTIVELY WITH THE KIND OF PROBLEM WE FACE IN THE UNEMPLOYMENT INSURANCE SYSTEM, AND THAT IS WHY WE STATED THAT "SUPPORT OF A HEALTHY ECONOMY" IS ONE OF THE PRIME RESPONSIBILITIES OF THE FEDERAL GOVERNMENT. NATIONAL ECONOMIC CONDITIONS AND STRUCTURAL UNEMPLOYMENT DID NOT ARISE OUT OF OUR UNEMPLOYMENT INSURANCE BENEFIT STRUCTURE. NOR CAN WE BUILD FUTURE UNEMPLOYMENT INSURANCE LAW ON CHANGING NATIONAL ECONOMIC PROJECTIONS. INSTEAD, WE PROPOSE TO THE CONGRESS AND THE ADMINISTRATION THAT WE ACT JOINTLY TO TACKLE THE LONG-TERM ISSUES OF UNEMPLOYMENT INSURANCE SOLVENCY. STATES MUST TAKE THE FIRST STEP

TOWARDS SOLVENCY, CLOSING THE GAP BETWEEN PROJECTED BENEFITS AND REVENUES. BUT EVEN AS WE ACT, THE SHORT-TERM COSTS IN TERMS OF INTEREST PAYMENTS CONTINUE TO MOUNT. AS STATES ACT, THE FEDERAL GOVERNMENT SHOULD RESPOND BY EASING THE PENALTY OF INTEREST IMPOSED ON BORROWED UNEMPLOYMENT INSURANCE FUNDS, AND BY RENEGOTIATING THE PROVISIONS AND TIME FRAMES UNDER WHICH STATES REPAY THEIR FEDERAL ADVANCES.

FOR THE FEDERAL GOVERNMENT TO DO LESS WOULD BE AN ABANDONMENT OF OUR PARTNERSHIP IN ITS MOST CRITICAL PERIOD.

CONCLUSION

THE GOVERNORS HAVE EXPRESSED PRINCIPLES WHICH WE BELIEVE TO BE CRITICALLY IMPORTANT TO YOUR DELIBERATIONS ON JOB CREATION AND UNEMPLOYMENT. THE STATES STAND READY TO WORK WITH YOU TO ADDRESS THE SHORT-TERM AND LONG-TERM EMPLOYMENT NEEDS OF OUR NATION.

Mr. PANETTA [presiding]. Thank you very much, Governor Thompson. Governor Lamm.

STATEMENT OF HON. RICHARD D. LAMM, GOVERNOR, STATE OF COLORADO

Mr. LAMM. Mr. Chairman and members of the committee, I am here with two different functions, and I'd like to make sure that you don't misunderstand my testimony.

I am here to describe the state of human resources, as our committee gave me the mandate to do yesterday, but that has to be done in the context of the budget resolution which we passed, which I feel passionately about and stand shoulder to shoulder with these other two people. The budget resolution we called for which says, as a first priority, the Federal deficit has to be brought under control, is going to require you to say "no" to a large number of constituencies, including Governors and mayors and local government, and I would like to make sure that you understand that first and foremost it is the feeling of the three of us that the national business requires the deficit to be under control lest the deficit crowd out all other private capital and abort the recovery.

Point No. 2, however, is the state of human resources in the United States and in the States, from our standpoint, administering these programs, it's important for us to describe them to you.

One hundred percent of the States, all 50, have reduced their medicaid programs for mothers and children. Forty-seven States, or 94 percent, have cut back title V, maternal and child health block grant programs.

Of 725,000 people, 64 percent of them women and children, have lost services in our community health centers. Twenty-seven States have reduced crippled children services. Another 93 percent, or 47 States, have reduced prenatal delivery services for pregnant women.

We estimate 400,000 children have been removed from school breakfast programs; that the death rate, for the first time, infant mortality morbidity rate, for the first time in a number of States, has reversed a 30-year trend and is now going up. In Detroit, the infant death rate is 33 per 1,000 live births, a rate that is the same as Honduras, the poorest country in Central America.

Point No. 3, is that there are, in our budget resolutions, I believe, some weighing and balancing, some solutions, that we are not here only with a tincup. Our recommendation on reducing defense expenditures and, if necessary, increasing revenue, are important ones.

One can't help but note the various studies that show, for instance, there's 240 MX missiles proposed in the President's budget. As other people have pointed out, if you would build 239 of them, 1 less, you could completely finance the cost of medicaid for every pregnant woman living in poverty.

Building 91 B-1 bombers instead of 100 could restore health care for all pregnant women, and on and on it goes. The point is that we had a roundtable, a bipartisan group of Governors yesterday, describing the state of human resources in their States, and the

report was not optimistic; in fact, evidenced was an awful lot of pain and suffering.

Point No. 4, is that, again, the feeling that UI, unemployment insurance—and Governor Thompson has spoken to that. My testimony relates to it. I won't be redundant on it.

No. 5, is the idea of the non-means-tested programs that our resolution also talks about, the ability that we see of reforming the institutions, of increasing the efficiency and effectiveness of the number of these programs.

It is very frustrating to be able to see a need in your State and yet, for instance, have your health care budgets go off the Richter scale and really not efficiently, in a lot of our minds, being delivered those services.

It is impossible for States alone to develop more effective interrelationships between food stamps and AFDC, between welfare and energy assistance, or between the medicare and medicaid money, without Federal flexibility, and I think there is a universal cry among Governors, that we do not have that flexibility.

There is also a feeling, and perhaps I should speak only for myself on this one, but in looking at the nonmeans tested, I think that as our resolution points out, we feel, that means-tested programs have suffered already grievous losses, but that we are willing to stand with you in recognizing that there has to be some hard decisions in the non-means-tested programs.

It seems to me—and, again, I speak for myself on this one—that in medicare, medical technology is inventing a level of care beyond the ability of public policy to pay for it. I feel very strongly that's right.

The New York Times the other day said that if the Barney Clark artificial heart was applicable, some 34,000 people, at a minimum, would need that operation, and that would add \$3 or \$4 billion—that was their figure—to a health care system already out of control.

Health and hospital cost containment has got to be a priority because there is much inefficiency in a system, duplication, unnecessary service.

I think along those other means tested—non-means-tested programs, things like pensions, social security, reform of the Federal civil service pensions, veterans' benefits, those are things that I think some Governors anyway would be more than willing to try to tackle with you, recognizing there's lots of political pain inherent in those.

In summary, the state of human resources on a State level is not good. They have suffered staggering losses in funding. We're doing the best we can. We could do an awful lot more, with some additional flexibility.

[Testimony resumes on p. 90.]

[The prepared statement of Governor Lamm follows:]

TESTIMONY
OF
GOVERNOR RICHARD D. LAMM
CHAIRMAN
NATIONAL GOVERNORS' ASSOCIATIONS
COMMITTEE ON HUMAN RESOURCES

- In 1984 federal spending for entitlements and other mandatory programs will total \$394 billion, some 44% of the total federal budget.
- By 1988 CBO projects that these expenditures will grow to \$511 billion, an increase of almost 30%, while the share of the federal budget remains at 44%.
- Clearly, a solution to the problem of the federal deficit will require some attention to the growth in these entitlement and mandatory spending programs.
- However, responsible action requires a clear understanding of the components of this category and the varying rates of growth.
 - Social Security, costing \$161 billion in 1984 will grow to \$211 billion in 1988, a 31% increase;
 - Other entitlements, including Medicare and Federal Civilian pensions, costing \$118 billion in 1984 will grow to \$173 billion in 1988, a 47% increase;
 - Needs Tested Entitlement and Other Critical Programs, basically programs aimed at the poor and the unemployed, costing \$116 billion in 1984 will grow to \$127 billion in 1988, a 9% increase; and
 - The Medicaid Program, a major portion of other entitlements, will grow from \$64 billion in 1984 to \$111 billion in 1988, an increase of 73% and Medicaid, costing \$22 billion in 1984 will grow to \$31 billion in 1988, an increase of 41%.
- The Governors have supported the recommendations of the National Commission on Social Security Reform and we believe that they comprise a responsible program to bring the short-term costs and revenues of that system into balance.
- The Governors have also supported state and federal efforts to bring rapidly escalating medical care costs under control.
 - state action, with federal assistance, has slowed the rate of Medicaid growth;

- states support aggressive federal action to control Medicare costs, particularly actions such as prospective hospital rate setting; and
- states also support a reduction in federal tax expenditures resulting from the unlimited exclusion of employer paid health insurance.
- Governors are, however, opposed to further cuts in need related programs and to the shifting of federal costs to states and localities. Particular concerns with the President's FY 1984 budget include:
 - \$1.5 billion in further cuts in AFDC and food stamps, including over \$400 million in state quality control sanctions for errors at least in part the result of overly complex federal programs and constantly changing program requirements; and
 - the elimination of \$1.5 billion in federal support for programs such as WIN, Community Services, Low Income Energy and Child Nutrition.
- These proposed changes come on top of large reductions in similar programs in 1982 and 1983. State governments, and the needs tested programs, have done their share.
- The Governors would urge continued careful attention to the entitlement programs, but we would urge a new focus.
 - the reforms and restraints in the National Commission's recommendations should be applied to other retirement and pension programs as well;
 - the Medicare rate setting proposals and the taxation of a portion of employer health insurance premiums should be pursued;
 - additional cost saving initiatives should be developed in Medicare; and
 - federal support for the needs tested entitlements should be preserved.
- We believe that such an effort can accomplish important steps toward reducing the deficit and we are prepared to work closely with the Administration and the Congress to secure its adoption.

TESTIMONY

HOUSE BUDGET COMMITTEE

GOVERNOR RICHARD D. LAMM

Mr. Chairman, members of the Committee my name is Richard D. Lamm, I am Governor of Colorado and Chairman of the National Governors' Association Committee on Human Resources. I am pleased to have the opportunity of appearing before you today, along with Governor Matheson and Governor Thompson, to discuss the impact of the President's budget on the programs for which states have primary responsibility. Governor Matheson has described NGA's position on broad budget principles. Governor Thompson has discussed our concern with employment programs. I would like to address the Human Resources programs, including a number of the block grants and the needs tested programs, such as Public Assistance, Medicaid and Unemployment Insurance.

As Governor Matheson has indicated in his testimony, the current economic condition of the nation is pressing states from two separate directions. First, state revenues are declining substantially. In Colorado, we need to come up with \$102 million before June 30th to balance the budget as mandated by the Constitution. This reduces the funds which we have available to respond to the critical needs of our citizens. At the same time,

high levels of unemployment and other problems associated with economic instability are increasing demands for a wide variety of services, ranging from the needs tested programs such as Aid to Families with Dependent Children and Food Stamps; Unemployment Insurance; to a variety of social support services designed to deal with child nutrition, family deterioration, and child and spouse abuse. Each of these demands will require additional state funding or the elimination of lower priority services.

It is critical to place in context the decisions made by Congress over the past two years, as we consider the Administration's FY 1984 budget recommendations. Beginning in FY 1982 people dependent upon needs tested programs have experienced budget cuts far greater than any other major segment of the budget. Eligibility changes in AFDC and Food Stamps have reduced assistance to the working poor and cost of living delay in food stamps decreased the real value of the benefits provided. While states took some comfort in the fact that Congress did not reduce these critical programs as much as recommended by the President in fiscal 1983, states saw grant-in-aid programs decline by a total of \$1.5 billion and additional reductions and eligibility restrictions in AFDC, Medicaid, and Food Stamps. These changes came on top of other major reductions which had been enacted for FY 1982 and included a number of cost shifts to the states. Changes in federal rules in areas like error sanctions and cost caps, which did not reduce expenditures - only

transferred responsibility from the federal level to the states. In addition, 1982 saw a major reduction in a number of service programs, including Social Services (cut \$550 million), Community Service (cut \$164 million) and Material and Child Health programs (cut \$83 million). While many states were able to absorb these cuts, at least initially, it is clear state reductions will be needed this year and that further federal cuts will be reflected immediately in reductions in state's services.

As we consider the FY 1984 Budget this morning, I would like to address four separate topics: (1) reduction in needs tested entitlements; (2) preservation of level funding for human service block grants; (3) the continued solvency of the Unemployment Insurance system; and (4) opportunities for economies or reductions in federal assistance programs.

The needs tested entitlement programs such as SSI, AFDC, AFDC for unemployed parents, Food Stamps, Medicaid, certain child nutrition programs and low-income energy assistance, are the most basic elements of the safety net which this Congress and the Administration have promised to preserve. These programs are needs tested and, except for food stamps, are subject to strict categorical tests. Eligibility is generally limited to families with low-income and families which have already exhausted their available resources in meeting their immediate needs. For most families, eligibility levels are well below the poverty level;

and for most families the amount of assistance provided is sufficient only to maintain the survival level standard of living, usually for short periods of time. The highest unemployment rate since the Great Depression is creating a new group of poor. So many of these middle class, turned temporarily poor, do not meet eligibility requirements for the assistance programs that have been the foundation of our social programs. Many people are single. Many are couples without children. Traditional programs have been designed for families. Even for families, recent new federal regulations have made access to these programs more difficult. These changes ensure that a family be totally impoverished before assistance can be offered. While many of the individuals are unable to work, those who are able are already subjected to strenuous work requirements and are further handicapped for the inability to compete for jobs during periods of extremely high unemployment.

The Administration has proposed a delay in cost of living increases for SSI and food stamps and, once again seeks to tighten eligibility. It proposes to shift back to the states certain federal or federal/state costs of operating these programs. While couched in terms of improved efficiency, one such cost shift, the proposed error rate sanctions, are nothing more than a transfer of responsibility from the federal government to the states without any concomitant transfer of resources. The current programs are operating in an environment

of increased demand and reduced staffing. While states are committed to making every effort to further reduce errors, it is impossible to meet the targets already in law, and certainly impossible to reach the zero error tolerance proposed by the federal government. As an example, the Food Stamp Program and AFDC programs have have to comply with approximately 40 federal regulatory changes in the last two fiscal years. As these changes filter down to the states, greater chances for errors exist due to the enormity of change. No one wants errors, but for the federal partner to claim no responsibility for erroneous payments is merely to shift necessary costs to the state. Similarly mandatory work fare, while fine sounding, will increase state administration costs substantially while doing little to reduce actual program costs.

I would like to reiterate for the Committee the strong position of the National Governors' Association that there must be a national policy toward income security, and that the federal government must play a larger role in financing that policy. The validity of that position, I think, is demonstrated more than ever in the current economic conditions. Absent this national role, states lack the ability to assure the continuation of necessary services. Absent a clear national policy, the Administration and the Congress are once again considering piece-meal changes which will substantially reduce our ability to help those most in need. While we cannot afford large and

growing federal deficits, neither can we afford to fail to meet the needs of those who have been failed by the economy. Moreover, we cannot afford to transfer to individual hard-pressed states a problem that is a national responsibility.

Second, last year the states accepted the principle that federal grants-in-aid for a variety of programs should be frozen. We are now prepared, reluctantly, to see overall growth in non-defense discretionary spending for 1984-1988 limited to only three quarters of the rate of inflation. The decision comes about at a time when the demand for services is growing and while states will have to assume additional responsibilities in order to preserve critical services. It comes, also, on top of large reductions already enacted by the previous Congress. While we recognize the need of all segments of the economy and the government to contribute to a climate of economic recovery, this burden must be shared equally. The Congress has before it proposals relative to the refinancing of the Social Security System, as well as proposals relative to the tax and defense expenditures in this country. It appears that federal grant-in-aid to states and localities has already paid its fair share. It is now time to look at the hard choices involved in these other categories and to see that all segments of the economy and the government are making a fair contribution. It is critical to emphasize that the failure to continue to fund essential programs such as Child Abuse, Family Counseling, Social Services, those programs most critical to assisting people confront the problems that arise out

of the current economic climate, can only result in cuts at the state level if federal funds are cut. The resources do not exist to fill-in behind the federal government.

Third, I want to discuss the solvency of the Unemployment Insurance System. The current federal budget assumes that states will pay some \$625,000,000 in interest in UI Trust Fund debts during FY 1983. Additional interest payments are expected to be required in FY 1984. States accept the principle that their Unemployment Insurance Trust Funds should be solvent during normal economic situations. However, the crisis which we currently face, the extremely high level of unemployment, and the longer than expected duration of unemployment, have taxed the ability of the states to meet those criteria. Equally important, unemployment is concentrated in some of the nation's core manufacturing industries, which themselves, are concentrated in a relatively small number of states. The ability of those states to meet the demands of their own unemployment system is severely limited without taking additional steps which would further compromise the economic viability of the remaining elements of those industries and seriously undermine the economic capacity of the United States as a whole.

States recognize and are prepared to take responsible steps to assure that benefits and tax changes are made so that they do not unfairly penalize those in need of service or threaten the

economic viability and recovery that we wish so much. Even when these steps are taken we are convinced that in the short-term there will be a need for continued borrowing by states from the Federal government. In testimony before the Subcommittee on Public Assistance, several states called for a freeze on interest. They argued that it was folly to add to this the burden of increased federal interest and reductions in the Federal Unemployment Tax Act offset credit. These two changes will divert badly needed money from general revenue, and impose impossible increases to already overstretched employer tax capacity. We believe that this is a time for a freeze on both interest and a continuation of the cap of the FUTA offset reduction for those states which are making a reasonable effort to preserve the long term solvency of their funds. We recognize that there is a long-term problem, one that we must address, but we do not think it should be addressed this year by shifting the interest burden to the states.

In a longer term, I think it is critical to recognize that during certain periods of catastrophic unemployment, and in certain situations where unemployment as a result of national policy concentrates in certain industries and localities, there is a need for a program of federal reinsurance. One such approach calls for a larger federal share of the costs of extended benefits in states with unusually high unemployment. The Governors' Association has supported such a position in the

past, including the retroactive application of those principles and we continue to support them. At the moment, we would urge the Committee to establish budget targets that will not force catastrophic short-term adjustments in state programs. This will allow others to conduct the hearings and exploration necessary to assure a long-term solution to this problem.

Fourth, both the states and the federal government must continue to look at ways of improving the efficiency of existing programs. In this respect, we must take every step possible to avoid duplication, overlap and other deficiencies in the system. We must also address the issue of escalating health care costs which deplete our resources and limit the availability of services. It is critical in this effort that the federal government provide leadership while maintaining the flexibility needed to allow continued state innovation. It is impossible for the states alone to develop more efficient inter-relationships between food stamps and AFDC, between welfare and energy assistance, and between Medicare and Medicaid programs without federal flexibility. Such inter-relationships require changes in federal law and regulations. More important, they require a firm commitment to cooperative action. It is also impossible for the states to address the health care cost issue without federal action to address the large Medicare program which is federally financed and administered. We have indicated our willingness to work with the Administration and the Congress in developing such options. Several items deserve immediate consideration, such as more effective rate setting for institutional care (an approach recognized by the new Medicare rate setting standards) possible taxation of excessive health insurance premiums paid by employers, and opportunities for the consolidation and simplification of the AFDC and food stamp programs.

In conclusion, let me emphasize that we know keenly the impact of the federal budget on state economies and the economy of the nation. We recognize and support the need for fiscal restraint as outlined in the budget priorities and principles which have been discussed by Governor Matheson and Governor Thompson. My purpose today is not in any way to contradict that need but to suggest the critical importance of a balanced approach which focuses on those elements which can be further adjusted without undercutting the basic viability of our programs to aid those most in need. The cost of recovery must be borne primarily by those who benefit from it, and not by those whose needs grow as unemployment and other economic ills increase.

I urge, therefore, that you approach your task taking into account NGA's recommendations which include:

- Preservation of federal funding of the needs tested entitlement programs. A strengthened Child Support Enforcement program could be a partial solution by increasing the responsibility of absent parents to contribute to their childrens' support while decreasing federal and state responsibility;
- Slowed growth in non-defense discretionary programs where such a funding limit means continued real dollars reductions due to the partial impact of inflation. Sharing technology from state-to-state could help all states become more efficient in utilization of limited resources. For example, the State of Colorado implemented legislation around foster care placement of children three years ago which required adequate alternatives to high cost placement. Prior to this legislation, foster care placement costs were increasing by 15 - 20% per year.

For FY 1982 and 1983, those costs have decreased by 12% and 14% respectively; and

- Support for enactment of the recommendations of the National Commission on Social Security Reform.

Thank you. I would be glad to respond to any questions that you might have.

Mr. PANETTA. Thank you very much, Governor Lamm, and all of you. First of all, I want to apologize for Mr. Wirth, who had another meeting over in the Capitol, and he asked me to extend his apologies.

Second, I want to commend all of you for the effort that you have made. It's a tough job, and we on the Budget Committee sympathize, or rather, get little sympathy for the tough choices that we have to make, and always enjoy it when others have to join in the party. So, I want to commend you for going through that exercise because it is a courageous step, and you've got to begin to start making choices, and when you finally put those choices down on paper, then you're subject to attack but, at the same time, that step has to be taken and those choices need to be made. But you are also politicians, so you didn't put a price tag on some of the toughest stuff that's here, and I'd like to try to pursue that a little bit, if I could.

First of all, on the positive part, the jobs program that you outlined, Governor Thompson. Is there a price tag on the kind of program that you're talking about, or are the Governors in support of a jobs program at this time?

Mr. THOMPSON. We have taken no formal position, as an association, on any particular piece of legislation. Your fast-track in the House, as I understand it, outstripped the ability of the Governors' Association to come to a resolution on a particular bill now pending.

One of the reasons for that was because our belief that we needed to act urgently also with respect to the budget resolution, which practically consumed the meeting, and so we were content, for the moment, to spell out principles by which any jobs bill, regardless of its cost or nature, we thought ought to be tested in terms of its efficacy for States and local governments. So, we do not have a price tag, Mr. Chairman.

Mr. PANETTA. Do you personally support any price tag in terms of a jobs program?

Mr. THOMPSON. I would find myself in personal support, as I understand the bill, and I have only a rudimentary acquaintance with the nature of the bill now moving through the House. I would personally support the components that I find in there, but I suspect that there will, on both the House and the Senate sides, be bills Nos. 2, 3, 4, 5 and on ad infinitum, as emergency jobs legislation becomes jobs legislation during the course of the session.

I think the idea of accelerating existing authorized construction projects is a good one, and certainly the extension of the Federal supplemental benefits to the extent that the Congress is doing that is also welcome, and I would approve the funding of emergency relief for needs in the area of hunger and shelter.

Beyond that, I think we have to take a very careful look and not be stampeded into jobs legislation because it bears that title, without some consideration of the long-term needs of the Nation, particularly with the structurally unemployed or displaced workers.

Mr. PANETTA. You've outlined, in your long-term suggestions, assistance for displaced workers, youth school-to-work transition assistance, vocational assistance, infrastructure assistance, and also the unemployment comp.

The problem is, obviously, in terms of the goals that you seek on the overall proposal to reach, by 1988, a deficit figure of \$90 billion, you do have to take into consideration what piece of that is going to go into positive legislation.

You can't say, "We want to reach a certain goal in terms of the deficit," and then at the same time advocate jobs programs or other pieces of a jobs program, and not put a price tag on it, very frankly. It's a little tough because the question then comes out, what does your deficit look like after you've implemented a positive program?

And so I guess the question I would raise, are the Governors in support of a jobs program, or are they taking the position that the priority is to achieve these targets that you've outlined in terms of your presentation?

Mr. THOMPSON. I'll answer that half and half—half NGA, half personal. Assuming the passage and the signing of the legislation now pending in the House, as I understand it, it would be my personal preference, and it certainly is at this moment, NGA policy—I believe I'm right, and if I'm not, my chairman can correct me—to attach the greatest priority to reaching the deficit controls to be found in our suggested budget resolution because I think most Governors, all Governors probably, have a very strong fundamental feeling that we're faced with an extraordinary choice at this moment, in the life of the Nation.

We either get control of ourselves, our economic processes, and we take actions however politically painful they may appear to be in the short term, designed to avoid plunging us back into recession if we are recovering, and I believe we are—because I believe that if we move backwards and go back into recession, we risk recession of a greater magnitude than that which we have endured for 3 to 4 years, depending upon where you live in the United States, and an almost permanent recessionary mode for our economy where, if we take the opposite choice and get control of Federal spending and bring it into line in the areas suggested by the kinds of cuts suggested, we have a chance to spur the economy so that the States and local government can properly exercise the discretion, State-to-State, locality-to-locality, in supporting programs in the human service area, education, transportation, through our own resources, through our own taxing abilities at the tax rates set in our own States by virtue of the vibrancy of our economy, but without deficit control, we simply don't have a chance, and we'll get into the catch 22 of having to raise taxes on a local and State level so high that we just put the final nail in the coffin, and then you get circular and then you're done for.

So, I guess my answer, Mr. Chairman—and the other Governors can speak for themselves or for the NGA—is, the first jobs bill, fine; then let's pause and take a look at where the rest fit in the overall budget resolution.

Mr. MATHESON. Perhaps as a supplementary comment, Mr. Chairman, I think that if we were to do a poll of Governors on jobs bills, you would find several who would support the Congress becoming heavily involved in that process.

I was talking to the Governor of West Virginia a little earlier today, and he was very glum. He just got the February unemploy-

ment figures in West Virginia, and I think he said they were around 19 percent, and Governor Blanchard just went home early because he's got about the same problem, but he's got \$900 million in revenues that didn't materialize that they appropriated in the last legislature.

So, we're really looking at a situation where individual Governors will vary, but I would, from my personal perspective, I think the fast-track bill is worth a try. The price tag on it does not seem to be unreasonable or out of line, and something needs to be done. I think we are prepared to do that on a bipartisan basis and, frankly, when it is on a bipartisan basis, that's a sign that basically the consensus means that it's generally good public policy to do it.

The other side of that coin is that we are sensing there may be the beginning of an economic turnaround and, obviously, the best way to get rid of unemployment is to have a good turnaround in the economy.

So, I'd like to be careful to look at the basic structure of how we address the budget and analyze each step carefully, and not open the floodgate on jobs legislation, but clearly we have to recognize that when we get down to the bottom line, we have to do certain things, regardless.

My judgment is, and our proposal reflects a policy of Governors that we don't want to inflict a lot of tax increases right now either because, if we sense a little recovery going on here, we don't want to dampen it in its early stages, and so we are suggesting there are ways to go about doing it on a phase-in basis and, hopefully, at the right time, assuming all of us are smart enough to pick the fleeting moment to address tax increases as well.

So, while there's no official position in the NGA, in that sense, I think that, generally, Governors would feel comfortable about the one that's on the sled right now, but I think we'd want to carefully evaluate how best to reach long-term stability with respect to jobs and unemployment, but surely the national recovery is a basic concern, and we need to address it.

Mr. PANETTA. Let me ask one additional question. You're also pretty tough on revenues, and I understand why, but, again, on the other hand, I want to try to pin this down.

You've set some targets for yourself in terms of the deficit. You want to reach, or at least you projected to reach a \$90 billion deficit by 1988. Now, is it your view then that that gap between the additional cuts you've recommended in the first five steps should be made up in revenues if you haven't reached that point?

Mr. MATHESON. That's basically it. You have three places you can go. The first is, you want to look at your expenditures and see what you can save, then you want to see how much you can save on the national debt, and then the difference on that has to come from additional resources.

Clearly, no one likes the idea of going out and raising taxes, particularly when we sense an upturn, and we did not take an official position, as Governors, on exactly where those tax increases should come.

We kind of ended up using the Budget Committee theory, that you decide what the figures are, and let the people who do the appropriating decide that over in their committee, but we did this.

We took the publication of the Congressional Budget Office which came out in February, the document which examines the reduction of the Federal deficit and gives a whole series of options on how to do that, and looked at the revenue-raising provisions.

And while we didn't adopt those revenue-raising provisions as a part of our resolution, we examined several options, and although the Governors have no official position on it, I was very comfortable, for example, and am comfortable with the idea of capping the third year of the tax cut.

I happen to feel that postponing for sometime, for several years, the indexing made some sense. If that were to occur, according to the CBO, in 1988, that would be a \$40 billion savings that year, if indexing were postponed at least to that date.

So, we also examined the possibility with this interesting reduction in the price of oil, perhaps a \$2 a barrel excise tax could be added, and we looked at that. So, we are willing to look at those options on an individual case-by-case basis.

I happen to feel comfortable with all three of the suggestions which I've made, and could make several others, but we had enough trouble getting the Governors to go with the language we used.

Mr. PANETTA. Well, I know you will probably do what we may wind up doing, which is not supporting any specific revenue proposal, but, on the other hand, I think the point is this, that in the gap that you're talking about, you want to reach a certain target, but you're talking about needed revenues—I mean, assuming you make these other reductions—but you've got to get so much revenue in terms of reaching those targets. You're prepared to go along with that—

Mr. MATHESON. That is definitely the case, definitely the case.

Mr. PANETTA. Thank you. Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman. I, too, join in welcoming this distinguished panel. I think we all agree with Governor and Chairman Matheson's statement in your written testimony, sir, that the economic fortunes of the 50 States are inextricably linked to national economic policies and performance and, therefore, we welcome the National Governors' initiative to make a vigorous statement about the future of the Nation's economy as it is impacted here in Washington, D.C.

If we are going to make some of those difficult choices which the National Governors' Association is now on record as endorsing, it seems to me that the relationship between the Federal and the State entities is going to have to change some.

I say this now as remarks to the good of the order because we are, indeed, inextricably linked together. And the relation, at least the political relationship between us has too often been characterized by rancor.

Too many people, not necessarily limited to just Governors, who run for State, local, and Federal office, view as we do, the Federal Government as sometimes overly oppressive and stocked with burdensome and difficult to decipher regulations. They have referred to the Capitol of the United States as the "Puzzle Palace," and this institution, as "Disneyland East." That has not helped our relationship, and has not aided us here, in making the hard difficult

choices for which we believe you, or many of your counterparts, will criticize us.

Now, I don't think it's unreasonable for us to ask that given the fact that the National Governors' Association has now asked us to make these hard choices, that you will act in some regard as down-field blockers for the Members of this institution. At least we ask you not to play on the other team as we fade back for this long and difficult pass that we're going to try to complete here.

If we pull together, then our constituents are going to fully understand the difficulties that face this Nation and face your States, but if we pull apart, then these choices that you have asked us to make will be impossible to make. We will try to treat you as kindly as some of us are hoping that you will treat us.

Let me ask you, specifically, the current budget proposal asks for the elimination of the following assistance programs which are meaningful to the States—work incentive program, legal services, the Economic Development Administration, community services block grants, the Land and Water Conservation Fund which I know is of importance to Governor Lamm's State as it is to my State of Montana, low income weatherization, the State energy conservation program, and rail branch line subsidies. What degree, if any, are the Governors going to be able to support each or any of those eliminations?

Mr. MATHESON. Governor Lamm insists on answering that question.

Mr. LAMM. I really understand what you're saying, and I think that, again, somehow we have to try to put together what we were trying to do today as a bipartisan coalition that can speak the hard truth to the American public, and the Social Security Commission, I know, is not going to notice by a whole bunch of other people.

And I think that perhaps it's our collective backbone that has to be called upon, and that's really what we are trying to do.

We, then, had to come up with the certain lowest possible denominator. I, myself, just speaking individually, I think Colorado was the first State to adopt indexing and, frankly, it's working in Colorado, but I'm astounded that Congress would pass indexing without one hearing on its fiscal implications.

I guess what I'm saying is that we ought to try to find ways where we can say, "Well, that's your decision." I mean, I will gratuitously tell you, as I did earlier, that as an accountant, I look at the social security system and say it seems to me inevitable, we're going to have to raise the retirement age, and we're going to have to start looking at tax expenditures, and I am willing, personally, to join with whoever is up there that wants to, just to share some flack.

Now, on that particular one, however, that you do ask the President's proposal in those areas that you discuss, or to cut another \$3.5 billion from programs that have already suffered 9 billion dollars' worth of cuts.

And our position, without seeming hypocritical, but is, in fact, that the means-tested programs, which are most of those that you mentioned, have already suffered enough, and that we have to find ways to reform other parts of the budget.

So, I think, Governor Matheson wouldn't it be fair to say, that to the extent that those—the land and water conservation grants were not in those means tested, but the ones that you mentioned, the WIN program, legal services, community services block grant, juvenile justice, Delinquency Prevention Act—those are programs that I think a broad coalition of Governors felt have already given enough.

Mr. MATHESON. It wouldn't be appropriate for me now to jump into that a little because of your question, Congressman. May I just make a brief response to your earlier remarks, which I thought were very apt and well taken.

The effect of this budget resolution means that you've got three Governors here suited up today, and we do have the same color of jerseys that you have, to the extent that this association can be of value and help support and work with you to make those hard choices and maybe be some downfield blockers, we really want to do that.

I think that the commitment that we made today on our vote is certainly not an academic one. If we don't convert that into some practicality, then our credibility is at stake as well.

I can't guarantee that down the road there will not be some criticism of the way Congress responds to some of its official business, but I can assure you there is ample enough to go around for all the Governors as well. We seem to be inherently in that.

In the area of the program, sir, which you have mentioned, I think the Governors ought to be willing to evaluate programs on the merits in terms of worth and whether they should be increased or not.

I was thinking of State and local programs, however, as in the area of what's happened to them. In the last 2 years, they have taken more cuts in Federal spending than any other area of spending. The general category actually is only about—the total amount of money to go to States now is only \$94 billion. That's only half of this year's deficit.

And so while I am certainly willing, and most Governors are, to evaluate very carefully any specific program, I have this concern in mind. The cuts which have come to State and local programs, from the Federal Government, in many, many cases, are simply being refunded with new taxes at the State level, and I'm nervous about that.

I don't want to substitute one tax dollar for another and, frankly, I think we ought to measure the worth of a cut in terms of its ultimate impact—and I don't know of a single Governor who hasn't had to raise taxes, in the entire country, with three exceptions, in the last year, so I don't want to hedge my commitment to you, but I think I should put it at least in that context.

Mr. WILLIAMS. Well, I appreciate the frankness of both of your answers, and the concern that is reflected in them. Again, I welcome the Governors' Association's effort here. I know you go into it with your eyes wide open because when a Federal dam or a Federal highway is complete, Members of Congress are the people that raised the money and the taxes to fund it, and the Governors are the ones that cut the ribbon to open the new highway or the dam. Now you are telling us that you are willing to forgo the cutting of

those ribbons on some of these new projects, and you may find that that's an easier task for us to comply with than it will be for you to accept in the final analysis.

Mr. MATHESON. I might make one final comment. Speaking for myself, I'm willing to try and fund, with State capital, as many of those projects as I can with State taxes, and have been to my legislature every year since I've been Governor, and they are out there—I'm nervous—they are still in session. I'm doing three bonding programs this session as well, so I'm willing to sit down and pay for a major portion at the State level, of public infrastructure expenses.

Mr. WILLIAMS. Thank you.

Mr. PANETTA. Thank you, Mr. Williams. Mrs. Martin.

Mrs. MARTIN. I was going to congratulate my Governor on another landslide victory, it sounds like, but he's left. I'll see him later.

Unlike everyone else here, I'm the Representative from the minority party here, so I can be the most argumentative, since it doesn't quite agree with the administration budget and someone should say a good word for it occasionally, I have that dubious distinction.

First, I will say something personally. Unlike everybody else, I wasn't ecstatic at all about the Governors taking positions on the budget. When I was on the county board, I didn't tell the State legislature what to do. They wouldn't have listened. And when I was in the State legislature, heck, I couldn't even tell the Governor what to do, much less the Congress, and I do think that's very dangerous, but after listening to you, maybe it is kind of a good idea.

I think there are some weaknesses. I think there is something you have to remember, from your point of view. States which work with public works and human services, all in all, I think, try to do a superb job. I think being a Governor during this time is extraordinarily difficult.

I really don't know if you can talk about defense, which is the one thing that Congress has an obligation to that the States can't do. You cannot have a township air force. The State of Illinois may have one, but that's not the national defense, so I don't know if the Congress will accept your 3 percent figure because I'm not sure that they have to make other judgments.

The Governor of Colorado, who is an accountant, and I suspect who can run that State very well—that's a good start—talks about he would get rid of B-1's. Well, I'm not sure that the Governor of Illinois or the Governor of Oregon would, or the MX's. But the MX's, if we cut out all of those programs next year, we'll save \$6 billion. They are big long-term costs. So, getting down to 3 percent in defense is an awesome responsibility, and if we did it, that's closing the bases in Colorado.

Again, I'm not sure that's part of the problem. When we get down to defense budget that over 50 percent is in personnel, you're talking about things that might have economic impact.

The defense budget, for every dollar spent, brings back 47 cents of revenue. No income transfer program does that. So, I, who am one of the least hawkish, I think, have an obligation to say those things. Sitting here on the committee at this point, with the kind

of general agreement with the defense budget, I don't think that you can have the Democratic and Republican votes to pass that, and that's what brings us the problem.

You say you are willing to stand with us on social security, and you're willing to cut defense. I will continue because I think our colleagues have asked good questions.

Would that be—and I know the Pentagon uses that as a threat—but does that include the bases in your State, the tough stuff, when it comes down to it, if that helped? Remember, you want us to get to 3 percent and to increase spending 3 percent might mean that every military base in the West is going to be closed.

Mr. MATHESON. What we have suggested in our resolution—

Mrs. MARTIN. That's what we come up with. Will you support us?

Mr. MATHESON. Well, we'll support you with respect to the position we've taken on defense spending, which is what we've suggested, that the real growth—we're not suggesting that there be cuts in the national defense effort. The suggestion is that there be a cut in the increase in the defense effort.

Mrs. MARTIN. OK. If how we achieve it, if how we achieve your 3 percent figure in real growth is by cutting every base in the West, will you support us?

Mr. MATHESON. I don't think that is the issue. What we are talking about, basically, if it requires a base in my State that is not required for military security, it ought to be shot down anyway, as far as I'm concerned. So the answer to your question, theoretically, is certainly. The Governors have not really attempted to make the decision between the maintenance and operation versus procurement.

Mrs. MARTIN. I understand that.

Mr. MATHESON. What we are attempting to do is recognize the fact that there has been dramatic growth in the defense budget, that a growing consensus of responsible people feel that the 3 to 5 percent, or at the most 6 percent is realistic and within our need to maintain defense security. I'm of the view that the Governors who have to put budgets together every year, and we have to make choices and make decisions on how we do that. We have to use what we have, and we have to make all of the programs pay off, and defense is a budgeting issue, too, and to that extent, I think the Governors do have some background and expertise in that subject area.

As a matter of fact, the Republican National Chairman has indicated that he thinks that there ought to be no more than a 5-percent growth, if I read the newspaper correctly, and so to the extent we can be helpful in keeping that within that posture, between the 3 percent and the 5 percent in the outyears, that's what we would really like to do. But in specific response to you, if I have a base in my State that shouldn't be there, let's get rid of it.

Mrs. MARTIN. Believe me, you and I may not be far apart at all. I'm just saying, when it comes time to make the decision, what sounds nice, 3 to 5 percent, some of us have found out it is absolutely fine if it's not your State, or it's sort of "Cut everybody else's program, not mine," that's what all of us have faced on a Budget Committee for 3 years.

Mr. MATHESON. We appreciate that, and one of the things that I hope that we can bring to this debate is a position where we recognize we have all got to share the responsibility and not be shafting one another on those specific decisions. I couldn't agree with you more.

Mrs. MARTIN. Thank you.

Mr. LAMM. I understand your cynicism and where it came from, and one of the things that we've had trouble with—this has been a two-front war this week, believe me. We've been trying to make some sense out of it with a wide variety of different people, and we have some idea of what you go through.

Our historic way, in the Governors' Conference, is to come up here and just simply ask for additional programs, additional money here, additional money there. At least, we've taken the first halting steps toward a comprehensive budget resolution that will make some comprehensive sense.

I stand with Governor Matheson on the fact of unnecessary military bases, and would point out that the MX missile system is made in Colorado, and my example was trying to find a Colorado-based jobs important missile system that I'm willing to bite the bullet on.

Mr. HEFNER [presiding]. I understand Governor Matheson has an appointment at 4:30 p.m., and I will be very brief and then I will yield to my colleague from California.

I sit on the Defense Subcommittee, and have spent a good deal of time examining this defense budget. Everybody inside the beltway, with the exception of the President and Mr. Weinberger and some of the generals at the Pentagon, seems to know that there are going to be some substantial defense cuts.

When Senator Baker says that \$15 billion can go, and—retired admirals and generals who no longer have to dance to the music—say that this can be done, then I think we'll see substantial support for cutting defense spending.

Now, I think it is realistic to say we can sustain somewhere between 5 and 6 percent real growth in defense. I think anything lower than that would be very difficult to get. But to get there in the short run, you can't do it by closing the bases that Mrs. Martin alludes to, because the money is just not there. Also the effects of displacing these people would be very negative. But the real problem would be that the savings would simply not be great enough.

To get that kind of money we need to save, you've got to go to procurement. You've got to go to an MX or a B-1 or another system. You've got to get the big dollars and that's where they are. You can't do it by cutting people's pay and then making it up in 1985, that's just false economy. And you can't get it from readiness as that's where we need to be putting our resources.

What we need, in my opinion, we need steady, sustained growth; growth we can count on. Another problem we're going to have is affordability of the defense posture that we're in now. The Air Force has already come out with a study that says their estimation of cost in the outyears is way, way low and the other services are doing similar studies with like results. So we have a problem there. But let me make one more point and then ask you gentlemen a question. The administration says we need to focus on spending to

get the deficit down. Well, I believe we have to look at loss of revenue also because, as you gentlemen have testified, there is almost nothing more to work with in the so-called social programs. We've gone about as far as we can go.

But we should examine our tremendous loss of revenue. You have said you support the social security program and the other aid programs. What statement did you make on the third year of the tax cut, either capping it or postponing it until the economy recovers or other options?

Mr. MATHESON. Yes, indeed, Mr. Chairman. We did not muster the support of enough Governors to come up with specific areas where revenue should be increased, but we passed a resolution in which we agree that revenues should be raised, if necessary, to get the deficit down to 2 percent of GNP by 1988, but I did indicate, from my personal point of view as an individual Governor, I support the capping of the third year of the tax cut and, frankly, think that the indexing ought to be repealed. That would save \$40 billion in 1988, according to the Congressional Budget Office, and I'd be willing to look at some others and be definitive on each of the issues, to face up to the reality of getting rid of those deficits which we feel just have to be attended to.

Mr. HEFNER. Well, it seems to me that when you talk about hard choices, taxes certainly fit in that category because nobody likes to raise taxes.

Mr. MATHESON. Absolutely.

Mr. HEFNER. Raising taxes is a highly political issue, but if you are concerned about deficits, and their effect on economic growth, I believe you must examine the revenue base.

The administration says we will have a deficit of almost \$200 billion in 1984 and the Government is going to borrow to pay the interest on that debt. We'll have to sell those T bills at 8.9 percent, or what the market demands. With further projections for debt through 1988 of over \$1 trillion, there will be tremendous pressures on interest rates. The crowding out of available credit and high rates leave little hope for people to borrow to buy homes and consumer goods.

So, it seems to me that we have to look at restoring some of the revenue because savings can't all be achieved on the spending side even if you cut defense and all the other programs.

If we cut further into your State money, as you said, if we took \$95 billion of it, that would still leave us in the next budget with a \$95 billion deficit.

Mr. MATHESON. It's only half of the deficit projected for the next fiscal year.

Mr. HEFNER. But it would be counterproductive to you because many grants to States such as grants for water and sewage, bring industry in, create jobs, and increase revenues.

Mr. MATHESON. And, incidentally, we would have to go out and raise the same taxes in our States.

Mr. HEFNER. And you don't opt for that.

Mr. MATHESON. We're doing it. I don't think it's a healthy thing for the economy. I share your view. Your analysis of what we're going to have to face up to, in my opinion, is right on.

I don't like to ask to be excused, but I do have an appointment downtown. I hope that I will not offend Mr. Lowry or Mr. Miller by asking to be excused for my appointment.

Mr. LOWRY. Actually, your answers were so good on the military and the third year of the tax cut and the index, you just can't offend Mr. Miller.

Mr. MATHESON. I think I will leave while I'm ahead. Thank you very much.

Mr. HEFNER. Thank you, Governor.

Mr. MATHESON. I'll leave Governor Lamm. He's the best answerer of questions I've ever known anyway.

Mr. LAMM. Mr. Chairman, can I follow up on your point? We're not here claiming the profiles-of-courage award for what we've just done, but I would like to put it in somewhat of perspective.

Thirty-four of us did, in fact, pass a resolution and sign a statement urging the delay of indexing until 2 percent gross national product is reached, and capping the third year of the tax cut.

That was done on a partisan basis, frankly. No apologies for it, believe it, we'll defend it, but what we were really trying to do today was to get a bipartisan statement, and for that we had to make some language concessions that resulted in what you could only fairly describe as some weasel words in our revenue section, but I do think that there is, again, a broad and even bipartisan consensus that additional revenues would have to be raised.

Mr. HEFNER. What did you suggest with regard to a cap on the third year tax cut? Would you cap it at \$700?

Mr. LAMM. Yes; that was the figure that was most commonly mentioned. The actual resolution only talks about it. It just says cap it. It doesn't give the figure.

Mr. HEFNER. Mr. Miller?

Mr. MILLER. Just quickly, on the topic of flexibility, I know it's the desire of every level of government to have the ability to run the programs that it administers as it sees fit. I just wonder, after 2 years of block grants and another proposal for New Federalism, if you think that the tradeoff between flexibility and the decrease in funding can be justified?

Mr. LAMM. No, and, again, we have not only a resolution, but I think speaking for a broader group, I'm also a little bit worried about the portfolio that I'm carrying, but I think that, again, there is resolutions to the effect that we got the budget cuts, we didn't get the flexibility. I think most Governors felt we got the worst of all possible worlds.

Mr. MILLER. Well, as I look down this proposal, which includes a decrease in funding of an additional \$8 billion, and I sat this morning in the nutritional block grant proposals which included a cut of another \$300 million to States to run these programs, it seems to me this flexibility is killing you. What concerns me is the politics of the Governors' discussion of flexibility at this time, providing this administration with the banner under which to carry out budget cuts.

I just wonder if the Governors could see it in their best interest to continue that discussion a couple of years from now? But at this moment, it's suggested to us that all of local government desires flexibility. Therefore, the administration is only returning the

power to the local government which they said they wanted, but as we constantly see now, for the third year running, it means a dramatic cut in those fundings.

I wonder if the Governors' Association can appreciate that New Federalism was on the third burner back here until it was rekindled, and now it's back again? I see it in the Education and Labor Committee, and we see it in the Interior Committee, and we see it in all of the committees that affect your States. Yet it seems to me that this constant discussion of flexibility is nothing more than a ruse for allowing the administration to pretend to the American taxpayers that they are shifting power to local government. I wonder if the association might want to consider what they are doing? I mean, in fact, they are loading the gun that's being fired at the States.

Mr. LAMM. Representative Miller, I understand, again, what you're saying. Let me put it in some context.

Mr. MILLER. Let me just say, I don't doubt that yours is a good faith effort because I think my State could run some of these programs better, and I'm sure Colorado can. But I suspect that there's not a good faith dialog between the two parties at this point.

Mr. LAMM. As a matter of fact, I've got to really compliment the Republican Governors for actually their strength in terms of not giving in to the White House's definition of New Federalism. And I do realize that we do talk about flexibility, and that's for a very good reason.

I cannot tell you the frustration of having to what I call play "mother, may I?" with some GS-15 someplace in terms of how you administer the States of Utah, Illinois, or Colorado, and I believe there's a real good faith and broadly based frustration that expresses itself in the fact that the Governors are one of the few, if only, constituency for New Federalism. That isn't naivete. That is really a frustration in seeing so many rules and regulations that, in fact, limit our authority, but we have not given in to the seduction of New Federalism at any price.

Richard Snelling, the last chairman of the National Governors' Association, was terrific in terms of going to the White House and carrying our "no" back to the White House, time and time again, at great political cost to him.

So, I don't feel that the Governors have been near as naive in this as there seems to be—the average Republican Governor—

Mr. MILLER. I'm not suggesting that. I'm just suggesting that maybe they ought to state that they want to postpone the discussion until such time as there is some equal tradeoff between funding and flexibility. But it does not appear that that has occurred in the 3 years of dialog that we have had. And I just think the discussion ought to be stopped because it puts the Congress in the position of not supporting local control or administration of programs when, in fact, there is a very large constituency in this Congress for that on both sides of the aisle. But that is not what we are being presented with by the administration.

I just wonder if perhaps, rather than paying the political price of your chairman-elect, you simply postpone that discussion until such time as there can be some other agreement?

Mr. LAMM. I think there's a great deal of truth in what you're saying. Again, the Republican Governors—it's interesting to hear their dialog. It doesn't express itself perhaps in the same way, and I see what you are saying, is that we are being self-defeating in some of these things.

The lesson in California where Governor Reagan didn't cut taxes, he shifted them to another level of government, they had to raise property taxes, that resulted in proposition 13, has not gone unnoticed by Republican and Democratic Governors.

Mr. MILLER. This guy was a master at taking Federal dollars and not passing them on. It was the subject of a number of lawsuits. Thank you very much. I want to commend the statements that all three of you made. I'm delighted that you've gotten involved to this extent in the budget debate, because unless you do speak up, an awful lot is programmed to come right out of the hide of the States and our joint constituents. I think it's very important that you've taken a position.

Mr. HEFNER. Mr. Lowry.

Mr. LOWRY. Thank you, Mr. Chairman. I wasn't kidding. I think it is some of the best testimony we've had. As you know, a 3 percent real growth in 1988, that difference is \$55 billion. That goes a long way toward this problem. Social security reform, \$21 billion; that goes a long way. You're indexing \$40 billion in the full third year of the tax cut.

Just one small question. Your proposal for three-fourths of indexing and inflation for the nondefense discretionary programs which already have really received the large amount of the percentage of the cuts in what's already been accomplished in the last couple of years, and that's the same, I believe, as \$11 billion in 1988, reading Governor Matheson's testimony.

Do you think it makes sense to be making that cut again in the nondefense discretionary research and development on those programs you know are so important, as opposed to the total third year of the tax cut? The difference between the third year and the cap is \$30 billion in 1988.

So, what we are really doing, of course, is keeping most of the third year of the individual tax cut for a loss of \$30 billion in revenue, and cutting these vital programs \$11 billion by which to do it in 1988. Do you think that makes sense, or do you think that perhaps we could have another approach to that, Governor Lamm?

Mr. LAMM. As you recognize, again, one of the prices for the bipartisan was, in fact, the understandable feeling on the part of some Governors that we would have no moral authority if we came in and said, "Cut everybody else, but we want to keep at a current level."

Your figures are absolutely correct. Spending for the nondefense discretionary programs, 1981-82 alone will drop by \$10 billion. And by the way we look at the budget, in 1984, they will only be \$4 billion over the 1981 level. They have been, in fact, already cut very drastically, and speaking now without repudiating a compromise hard won, I certainly agree with your statement personally.

Mr. LOWRY. I'd like to ask just one other totally different question. Perhaps you have or have not encountered it. Some people have suggested, in the area of New Federalism, of totally shifting

K-12 responsibilities to the States and, in exchange, the Federal Government picking up the cost of the low income programs—essentially, the 50-percent match that the States have to pay for the low income programs.

I think you're an excellent Governor, Governor Lamm, and I don't know whether you've had a chance to think about that type of proposal, and how you think that would work.

Mr. LAMM. That is the type of general thrust that I think a lot of Governors propose, overall, the idea that we would take some of those 34 categorical programs and give some additional flexibility and have a trading off.

One of our school districts estimated that Federal education money was 6 percent of their budgets, and yet it was 39 percent of their paperwork. And there is, again, a certain amount of frustration out there that perhaps there could be a consolidation of Federal programs.

Mr. LOWRY. Thank you very much. Thank you, Mr. Chairman.

Mr. HEFNER. Mr. Frost.

Mr. FROST. I don't have any questions.

Mr. HEFNER. Thank you, Governor, for being with us and being so patient with us. We appreciated hearing from you. The hearing is adjourned.

[Additional material submitted for the record by the National Governors' Association follows:]

ADMINISTRATION NEW FEDERALISM BLOCK GRANT PROPOSALS

[In millions of dollars]

Budget Authority

Program	Fiscal year 1981 actual	Fiscal year 1983 actual	Fiscal year 1984 admin	Dollar change 1983-84	Percent change 1983- 84
Rehabilitation services	923.75	1,006.47	1,006.47	.00	.00
Vocational education	667.00	713.82	492.84	-220.98	-30.96
Adult education	100.00	95.00	.00	-95.00	-100.00
State education block grant	492.36	450.66	450.66	.00	.00
WIN	365.00	270.76	.00	-270.76	-100.00
Low-income energy assistance	1,849.50	1,975.00	1,300.00	-675.00	-34.18
Social services block grant	2,991.10	2,450.00	2,500.00	50.00	2.04
CSA block grant	524.59	360.50	.00	-360.50	-100.00
ADAMHA block grant	540.92	439.00	439.00	.00	.00
Maternal and child health block grant	456.23	373.00	373.00	.00	.00
Rural water and waste disposal grants	200.00	125.00	90.00	-35.00	-28.00
Water and sewer facility loans	750.00	375.00	250.00	-125.00	-33.33
Community facility loans	260.00	130.00	100.00	-30.00	-23.08
CDBG nonentitlement portion	925.58	1,019.90	1,019.90	.00	.00
Waste water treatment (EPA)	3,900.00	2,430.00	2,400.00	-30.00	-1.23
Child welfare services	163.55	156.33	156.00	-.33	-.21
Child welfare training	5.20	3.82	.00	-3.82	-100.00
Adoption assistance	5.00	5.00	5.00	.00	.00
Foster care	349.20	395.00	440.00	45.00	11.39
Preventive health and health services	93.20	86.30	85.30	-1.00	-1.16
Child abuse State grants	6.88	6.72	7.00	.28	4.17
Runaway youth	11.00	21.50	10.00	-11.50	-53.49
Subtotal State block grants	15,580.05	12,888.78	11,125.17	-1,763.61	-13.68
FEDERAL-LOCAL BLOCK GRANT					
General revenue sharing	4,567.00	4,567.00	4,567.00	.00	.00

ADMINISTRATION NEW FEDERALISM BLOCK GRANT PROPOSALS—Continued

(In millions of dollars)

Budget Authority

Program	Fiscal year 1981 actual	Fiscal year 1983 actual	Fiscal year 1984 admin.	Dollar change 1983-84	Percent change 1983- 84
CDBG—entitlement portion.....	2,667.10	2,379.60	2,379.60	.00	.00
Subtotal Federal-local block.....	7,234.10	6,946.60	6,946.60	.00	.00
TRANSPORTATION BLOCK GRANT					
Urban system.....	800.00	800.00	800.00	.00	.00
Secondary system.....	600.00	400.00	650.00	250.00	62.50
Nonprimary bridges.....	736.00	510.00	510.00	.00	.00
Highway safety (FHWA 402 grants).....	10.00	10.00	10.00	.00	.00
Hazard elimination.....	200.00	200.00	200.00	.00	.00
Rail-highway crossing.....	190.00	190.00	190.00	.00	.00
Subtotal transportation block.....	2,536.00	2,110.00	2,360.00	250.00	11.85
RURAL HOUSING BLOCK GRANT					
Combined programs.....	3,943.22	3,479.25	850.00	-2,629.25	-75.57
Program phasedown.....	NA	NA	374.50	NA	NA
Subtotal rural housing block.....	3,943.22	3,479.25	1,224.50	-2,254.75	-64.81
Total Federalism proposal.....	29,293.37	25,424.63	21,656.27	-3,768.36	-14.82
Total compared to fiscal year 1981.....				-8,011.61	-26.07

FEDERALISM

THE NATIONAL GOVERNORS' ASSOCIATION CONTINUES TO SUPPORT THOUGHTFUL ACTION TO RESTRUCTURE THE FEDERAL SYSTEM TO IMPROVE ITS EFFECTIVENESS AND ACCOUNTABILITY. THE CURRENT SYSTEM REMAINS OVERLY COMPLEX, LARGELY UNACCOUNTABLE AND WASTEFULLY UNCOORDINATED. IN VIEW OF THE CONSTRAINTS ON THE REVENUES OF ALL LEVELS OF GOVERNMENT IN THE FORESEEABLE FUTURE, IT IS VITAL THAT NEW WAYS BE FOUND TO IMPROVE THE FEDERAL-STATE PARTNERSHIP. CHANGE IS NEEDED, AND CHANGE IS POSSIBLE.

THE GOVERNORS REMAIN CONVINCED THAT CERTAIN PRINCIPLES MUST CONTINUE TO GUIDE THE REVITALIZATION OF THE FEDERAL SYSTEM. THESE PRINCIPLES INCLUDE:

- A NATIONAL POLICY ON INCOME SECURITY FOR THE NEEDY WITH A LARGER FEDERAL FINANCIAL ROLE SHOULD BE DEVELOPED AS THE CENTERPIECE OF A REFORMED FEDERAL SYSTEM;

- AS A FIRST STEP TOWARD THIS NATIONAL POLICY, THE FEDERAL GOVERNMENT SHOULD DEVELOP A NATIONAL PROGRAM OF MEDICAL CARE FOR THE NEEDY FINANCED FROM FEDERAL RESOURCES;
- IN ORDER TO FUND THESE PROGRAMS AND TO PRESERVE THE CURRENT BALANCE OF COSTS WITHIN THE FEDERAL SYSTEM, THE STATES REMAIN READY TO CONSIDER THE ORDERLY TURNOVER TO THEM OF A COMPARABLY PRICED SET OF PROGRAM RESPONSIBILITIES SUCH AS EDUCATION, COMMUNITY DEVELOPMENT, TRANSPORTATION AND SOCIAL SERVICES.
- THE FEDERAL GOVERNMENT HAS A SPECIAL ROLE AND RESPONSIBILITY TO ENSURE THAT STATES HAVE THE FISCAL CAPACITY TO MEET THE REQUIREMENTS OF THE NATIONAL INCOME SECURITY POLICY AND OTHER FEDERALLY ARTICULATED NATIONAL GOALS;
- THE FEDERAL GOVERNMENT HAS A SPECIAL ROLE AND RESPONSIBILITY TO ASSIST THE STATES TO MEET THE NEEDS OF SPECIAL POPULATIONS SUCH AS REFUGEES, MIGRANTS AND INDIANS;
- THE FEDERAL RESPONSIBILITY TO ASSURE EQUALITY OF ACCESS AND DUE PROCESS MUST BE MAINTAINED;

- WHILE LOCAL GOVERNMENTS MUST BE ASSURED THAT RESOURCES WILL CONTINUE TO BE MADE AVAILABLE FOR PRIORITY NEEDS, THE FEDERAL GOVERNMENT SHOULD WORK TO END THE DISRUPTIVE BY-PASSING OF STATE GOVERNMENTS IN ITS LOCAL SERVICES PROGRAMS;

THE GOVERNORS RECOGNIZE THAT CURRENT FISCAL CONSTRAINTS ON THE FEDERAL GOVERNMENT MAY AFFECT THE PACE OF THE REORGANIZATION AND REVITALIZATION OF THE FEDERAL SYSTEM. AT THE SAME TIME, WE ARE CONVINCED THAT THESE CONSTRAINTS SHOULD NOT SERVE AS AN EXCUSE TO ABANDON CURRENT FEDERAL GRANTS WITHOUT OFFSETTING INCREASES IN FEDERAL FUNDING OF FUNCTIONS, NOTABLY WELFARE, WHICH OUGHT TO BE PRIME FEDERAL RESPONSIBILITIES. FISCAL FEDERALISM, THE INTERWOVEN PATTERN OF FEDERAL, STATE, AND LOCAL REVENUES IN FINANCING THE NATION'S PUBLIC SERVICES, MUST BE GUIDED BY THE SAME PHILOSOPHICAL UNDERPINNINGS AS MORE SUBSTANTIAL RESTRUCTURING PROPOSALS.

THE GOVERNORS BELIEVE THAT THE CURRENT FISCAL CRISIS MAKES IT EVEN MORE ESSENTIAL THAT OUR FEDERALISM GOALS BE PURSUED. THE PROPOSAL OF THE EXECUTIVE COMMITTEE, TRANSMITTED TO THE PRESIDENT ON NOVEMBER 19, 1982, IS ILLUSTRATIVE OF ONE APPROACH THAT COULD HELP ACHIEVE THOSE GOALS WITHOUT SUBSTANTIAL ADDITIONAL COST TO THE FEDERAL GOVERNMENT. THE GOVERNORS ALSO REITERATE THEIR SUPPORT FOR THE INCOME SECURITY POLICY ADOPTED

AT THE 1982 WINTER MEETING AND FOR THE ILLUSTRATIVE PROPOSAL WHICH ACCOMPANIED THAT POLICY.

THE GOVERNORS ARE AWARE THAT THE PRESIDENT HAS REITERATED HIS SUPPORT FOR FEDERALISM REFORM BY PROPOSING THE CREATION OF FOUR NEW BLOCK GRANTS. THE GOVERNORS REMAIN COMMITTED TO THE EXPLORATION OF BLOCK GRANTS AND OTHER FEDERALISM ALTERNATIVES BOTH ON THEIR OWN AND IN COOPERATION WITH THE ADMINISTRATION AND CONGRESS. SUCH ALTERNATIVES WILL BE JUDGED AGAINST THEIR ABILITY TO SIMPLIFY THE FEDERAL SYSTEM AND THEIR COST IMPLICATIONS. WE ARE NOT PREPARED TO ACCEPT, AND WILL STRONGLY OPPOSE, ATTEMPTS TO SHIFT CURRENT FEDERAL COSTS BACK TO STATES AND LOCALITIES UNDER THE GUISE OF FEDERALISM.

JOBS CREATION INITIATIVES

CURRENT LEVELS OF UNEMPLOYMENT ARE UNACCEPTABLY HIGH, AND PROJECTIONS NOW INDICATE THAT THE UNEMPLOYMENT RATE WILL REMAIN HIGH THROUGH 1988. RECOGNIZING THE IMPORTANCE OF THIS ISSUE, THE NATIONAL GOVERNORS' ASSOCIATION HAS ESTABLISHED A TASK FORCE ON JOBS AND INFRASTRUCTURE. THE FOCUS OF THE TASK FORCE IS TWO-FOLD: FIRST, TO DEVELOP POLICY THAT WOULD ENABLE THE NATIONAL GOVERNORS' ASSOCIATION TO WORK WITH CONGRESS ON EMERGENCY JOB LEGISLATION IT IS DEVELOPING; AND SECOND, TO IDENTIFY LONG-TERM INITIATIVES THAT PROVIDE THE MOST EFFECTIVE RESPONSE TO THE UNEMPLOYMENT PROBLEM. INFRASTRUCTURE PROGRAMS, RETRAINING, AND RELOCATION EFFORTS WILL BE AMONG THE OPTIONS REVIEWED BY THE TASK FORCE.

EMERGENCY JOBS LEGISLATION

THE GOVERNORS BELIEVE THAT ANY EMERGENCY JOBS CREATION PROGRAM ADOPTED BY CONGRESS SHOULD CONFORM TO FIVE PRINCIPLES:

- PRESERVATION: FINANCING FOR PROGRAMS SHOULD NOT COME AT THE EXPENSE OF EXISTING PROGRAMS OF FEDERAL ASSISTANCE. THESE PROGRAMS HAVE ALREADY TAKEN MORE THAN THEIR SHARE OF SPENDING REDUCTIONS.
- FLEXIBILITY: IN ORDER TO OBTAIN THE HIGHEST VALUE FROM THE EMERGENCY JOB CREATION PROGRAM, STATES AND LOCAL GOVERNMENTS SHOULD HAVE MAXIMUM FLEXIBILITY IN ALLOCATING THE FUNDS.

- EFFICIENCY: TO ENSURE BENEFITS TO THE MAXIMUM NUMBER OF UNEMPLOYED PEOPLE UNDER THE SPECIAL LEGISLATION, PRIORITY SHOULD BE GIVEN TO ACTIVITIES THAT ARE LABOR INTENSIVE.
- TARGETING: FUNDS UTILIZED FOR JOBS CREATION SHOULD BE TARGETED TO THE LONG-TERM UNEMPLOYED.
- TIMELINESS: THE TIMELY COMMITMENT OF FEDERAL FUNDS BY STATES AND LOCAL GOVERNMENTS IS NECESSARY TO PUT PEOPLE BACK TO WORK AS SOON AS POSSIBLE.

THE STATES, IN COOPERATION WITH LOCAL GOVERNMENTS, ARE UNIQUELY ABLE TO MOVE QUICKLY AND EFFECTIVELY TO IMPLEMENT EMERGENCY JOBS EFFORTS WITHOUT CREATING NEW AND COMPLEX ADMINISTRATIVE SYSTEMS. THEY ARE EXPERIENCED IN ADMINISTERING A BROAD ARRAY OF IMPORTANT PROGRAMS WHICH COULD BE EXPANDED TO PROVIDE USEFUL EMPLOYMENT, AND THEY ARE WELL EQUIPPED TO ESTABLISH PRIORITIES AND TO COORDINATE THE EMERGENCY INITIATIVE WITH OTHER ON-GOING PROGRAMS. THEY HAVE THE NECESSARY FLEXIBILITY TO DEAL WITH PROBLEMS THAT OVERLAP LOCAL JURISDICTIONS.

FINALLY, THEY HAVE ESTABLISHED RELATIONSHIPS WITH THE PRIVATE SECTOR NECESSARY TO PERMIT PUBLIC-PRIVATE COOPERATION IN IDENTIFYING JOB OPPORTUNITIES. THIS STATE CAPACITY IS ENHANCED BY THE FACT THAT STATES THEMSELVES ARE READY TO PROCEED RAPIDLY WITH THE BACKLOG OF NEEDS THAT HAS ACCUMULATED AS A RESULT OF DECLINING REVENUES AT ALL LEVELS OF GOVERNMENT.

THE GOVERNORS SUGGEST THE FOLLOWING GUIDELINES FOR IMPLEMENTING THE PRINCIPLES OUTLINED ABOVE:

- ANY NATIONAL JOBS CREATION LEGISLATION SHOULD AVOID

SUPPLANTING EXISTING FEDERAL PROGRAMS OF STATE AND LOCAL ASSISTANCE.

- STATES AND LOCAL GOVERNMENTS SHOULD BE USED AS THE CONDUITS FOR EMERGENCY FUNDS.
- THE EMERGENCY JOBS PROGRAM SHOULD INCLUDE A BLOCK GRANT TO THE STATES.
- THE EMERGENCY FUNDS SHOULD BE FLEXIBLE, SO THAT STATES CAN BEST ADAPT THEIR USE TO THE SPECIAL NEEDS OF THEIR CITIZENS.
- PREFERENCE SHOULD BE GIVEN TO LABOR-INTENSIVE USES SUCH AS MAINTENANCE AND REPAIR OF PUBLIC FACILITIES, RESOURCE RECLAMATION AND CONSERVATION, AND HIRING FOR HUMAN SERVICES PROGRAMS.
- NO MATCHING PROVISIONS SHOULD BE INCLUDED.
- THE EMERGENCY PROGRAM SHOULD REQUIRE STATES AND LOCAL GOVERNMENTS TO:
 - COMMIT FUNDS WITHIN A SPECIFIED PERIOD OF TIME. IF ANY STATE OR LOCAL GOVERNMENT IS UNABLE TO FULLY USE SUCH BLOCK GRANT FUNDS WITHIN THE GUIDELINES SPECIFIED, THE FUNDS SHOULD BE REALLOCATED TO THE STATE GOVERNMENT OR THE LOCAL ENTITIES WITHIN THE STATE WHICH ARE READY TO UTILIZE THEM;
 - GIVE PRIORITY IN HIRING TO PERSONS WHO HAVE BEEN UNEMPLOYED FOR LENGTHY PERIODS;
 - EMPHASIZE AID TO AREAS WITHIN THE STATE MOST SEVERELY

AFFECTED BY UNEMPLOYMENT;

— AVOID DISPLACEMENT OF CURRENT WORKERS.

- ADMINISTRATIVE PROCEDURES SHOULD BE KEPT TO A MINIMUM IN ORDER TO PERMIT TIMELY EXPENDITURES OF FUNDS, AND EMPHASIS SHOULD BE PLACED ON REPORTING DECISIONS AT THE END OF THE PROGRAM.

LONG-TERM EMPLOYMENT AND TRAINING STRATEGY

THE GOVERNORS RECOGNIZE THAT DEVELOPMENT OF A COMPREHENSIVE NATIONAL EMPLOYMENT POLICY MUST BE ASSIGNED THE SAME LEVEL OF PRIORITY BY THE FEDERAL GOVERNMENT AS NATIONAL DEFENSE, THE MAINTENANCE OF A SOUND CURRENCY, AND SUPPORT OF A HEALTHY ECONOMY. RAISING EMPLOYMENT POLICY TO SUCH A LEVEL MAY REQUIRE AN EXAMINATION OF THE CURRENT STRUCTURE OF BOTH THE EXECUTIVE AND LEGISLATIVE BRANCHES OF GOVERNMENT TO IMPLEMENT THAT POLICY. ABOVE ALL, WE NEED TO STREAMLINE THE FEDERAL RESPONSE TO UNEMPLOYMENT AND ORGANIZE GOVERNMENT AROUND THE PRINCIPLE OF EMPLOYMENT.

AN EFFECTIVE, LONG-TERM EMPLOYMENT AND TRAINING POLICY MUST INCLUDE A COMBINATION OF ECONOMIC DEVELOPMENT POLICIES AND EMPHASIZE JOB TRAINING FOR PERMANENT EMPLOYMENT INSTEAD OF ONLY ATTEMPTING TO CUSHION THE SEVERE BLOW OF UNEMPLOYMENT. TO THIS END, WE RECOMMEND THE DEVELOPMENT OF A FLEXIBLE SYSTEM THAT CREATES JOB SKILLS TO MATCH FUTURE JOB OPPORTUNITIES. SUCH A PLAN SHOULD INCLUDE THE FOLLOWING COMPONENTS:

- ASSISTANCE FOR DISPLACED WORKERS: A PACKAGE OF RETRAINING, JOB SEARCH AND RELOCATION ASSISTANCE SHOULD BE AVAILABLE FOR THOSE WHO ARE RECEIVING BENEFITS OR HAVE EXHAUSTED THEIR BENEFITS AND ARE

UNLIKELY TO RETURN TO THEIR PREVIOUS JOBS. THE PACKAGE WOULD INCLUDE UNEMPLOYMENT INSURANCE TO BRIDGE THE TRANSITION FROM JOB TO JOB; RETRAINING TO IMPROVE PERSONAL OCCUPATIONAL SKILLS; COUNSELING, JOB SEEKING, AND RELOCATION ASSISTANCE TO MOVE THE INDIVIDUAL FROM A LOST JOB TO A NEW JOB. WE SUPPORT PROPOSALS BY THE ADMINISTRATION AND CONGRESS TO INCREASE FUNDING FOR TITLE III OF THE JOBS TRAINING PARTNERSHIP ACT (JTPA) FOR THE TRAINING OF DISPLACED WORKERS.

- YOUTH SCHOOL-TO-WORK TRANSITION ASSISTANCE: A SCHOOL-TO-WORK TRANSITION PROGRAM IS NEEDED TO PREVENT THE FRONT END LOADING OF THE UNEMPLOYMENT LINES THAT OCCURS WHEN YOUNG PEOPLE GRADUATE FROM HIGH SCHOOL AND CANNOT FIND OR DO NOT HAVE THE SKILLS TO GET A JOB.
- IMPROVED VOCATIONAL EDUCATION SYSTEM: TO FURTHER ASSIST LOCAL EDUCATIONAL AGENCIES, FEDERAL VOCATIONAL EDUCATION AND ECONOMIC DEVELOPMENT ASSISTANCE FUNDS SHOULD BE TARGETED UPON IMPROVING TRAINING FACILITIES AND PROGRAMS IN OUR VOCATIONAL EDUCATION SYSTEM. IN ORDER TO ACCOMMODATE THE MASSIVE RETRAINING EFFORT NEEDED OVER THE NEXT DECADE, THE VOCATIONAL EDUCATION SYSTEM MUST BE EXPANDED AND STRENGTHENED.
- STATE PLANNING SUPPORT: THE FEDERAL GOVERNMENT SHOULD PROVIDE PARTNERSHIP ASSISTANCE TO HELP STATE AND LOCAL GOVERNMENTS PREPARE THEIR OWN EMPLOYMENT STRATEGIES. JOB CREATION IS OFTEN MORE A LOCAL THAN A NATIONAL ISSUE, BECAUSE EDUCATION, TAXATION, ZONING, AND TRANSPORTATION POLICIES DETERMINED AT THE LOCAL LEVEL ARE FREQUENTLY DECISIVE IN CHANGING STAGNATION INTO ECONOMIC GROWTH.

- PRIVATE SECTOR INVOLVEMENT: THE PRIVATE SECTOR EMPLOYERS SHOULD BE ENCOURAGED TO PROVIDE THEIR EMPLOYEES WITH NEW SKILLS TRAINING AND BASIC REMEDIAL EDUCATION.

THE GOVERNORS ARE COMMITTED TO WORKING WITH THE PRESIDENT AND CONGRESS FOR AN EFFECTIVE EMERGENCY JOBS PROGRAM. WE ARE FURTHER COMMITTED TO WORKING WITH NATIONAL LEADERS TO SOLVE THE LONGER TERM UNEMPLOYMENT PROBLEMS FACING OUR NATION THROUGH SUSTAINED ECONOMIC GROWTH AND RELATED GOVERNMENT INITIATIVES.

NGA Position on Federal Budget

The nation's Governors are extremely concerned about the large federal deficits that are projected over the next five years. These deficits are projected by the Congressional Budget Office to increase from \$197 billion in fiscal 1984 to \$267 billion or 5.6 percent of GNP in 1988 in spite of the fact that real GNP is assumed to grow between 3 and 4 percent per year over this period. The major concern is that these deficits will increase interest rates, thereby slowing both the economic recovery and long-term economic growth. If the recovery is stalled, the already extremely serious fiscal conditions of the states will continue to deteriorate. State revenues are currently estimated to be off \$7.9 billion, a drop of 5.4 percent from the estimates made in the Spring of 1982. Despite severe austerity measures, the states have not been able to offset recession-induced revenue declines. Thus, the states, as well as their individual citizens, have a vital interest in the timely resumption of real growth in the national economy. We, therefore, urge the Congress to enact policies this year to significantly reduce these out-year deficits. Specifically, we urge the Congress to:

1. Adopt a first budget resolution for fiscal 1984 which reduces the federal deficit to approximately 2 percent of GNP or \$90 billion by 1988. The 2 percent level would eliminate most of the structural deficit and represents the average level experienced over the decade of the 1970s. It is also the consensus target adopted by a bi-partisan committee of business and government leaders. In developing the budget resolution most deficit reductions should be focused on the latter part of fiscal 1984 and the 1985-1988 period so as to not jeopardize the economic recovery.
2. Enact the authorization, revenue and appropriation changes in 1983 to achieve reductions throughout the 1984-1985 period. Spending and revenue changes have a cumulative effect and, therefore, changes are required this year to have even a moderate impact on the out-years. Delays in correcting the budget imbalance will contribute to uncertainty with respect to future interest rates and economic recovery.
3. Enact policy changes which share the burden between national defense and domestic spending reductions and possible revenue increases and do not shift additional costs to state and local government.

Recommended Budget Guidelines

The Congress is urged to consider the following budget guidelines to attain the goal of reducing the 1988 deficit to approximately 2 percent of GNP. Such a strategy reduces the projected fiscal year 1988 deficit from \$267 billion to \$90 billion, a reduction of \$177 billion in that year.

1. Social Security: Enact the bipartisan Commission recommendations on Social Security. These recommendations include delaying the cost of living adjustment from July to January, taxing 50 percent of Social Security benefits for high income individuals, increasing the payroll tax and allowing a refundable tax credit, and increasing the self employed tax rate with 50 percent to be tax deductible. (Deficit reduction in 1988 = \$24 billion from projected spending of \$211 billion.)

2. Non-defense discretionary spending: Restrict the 1984-1988 increases to three-fourths the rate of inflation. This category includes grants to state and local governments, assistance to business and commerce, veterans' health care, environmental regulation, research and development, economic and military assistance to foreign governments and most of the costs to operate the three branches of the federal government. (Deficit reduction in 1988 = \$11 billion from the projected spending of \$184 billion.)

3. Means tested and other critical entitlement programs: Provide almost full funding for these programs including AFDC, food stamps, medicaid, SSI, child nutrition, low income veterans' pensions, guaranteed student loans (GSL), farm price supports, social services, general revenue sharing and unemployment insurance. (Deficit reduction in 1988 = \$2 billion from a projected spending of \$127 billion.)

4. Non-means tested entitlement programs: Restrain the growth in these entitlement programs which are projected to increase 60 percent between 1983 and 1988. Included in this category are the various medical insurance, disability and retirement programs funded by the federal government. (Deficit reduction in 1988 between \$15 and \$18 billion from a projected spending of \$173 billion.)

5. National Defense: Limit national defense to between 4 and 6 percent real growth in appropriations over the 1984 to 1988 period and between 3 and 5 percent over the entire 1984-1988 period. The baseline and first budget resolution for fiscal year 1983 assume approximately 9.5 percent real growth over the next two years which is slightly below the Administration's request. Since defense spending has increased almost 57 percent over the 1981-1983 period some slowing of this rate may be appropriate to maintain cost-effectiveness in weapons systems and other procurement. (The estimated range of deficit reductions in 1988 is between zero and \$19 billion from a projected spending of \$358 billion.)

6. Revenues: Revenues may have to be increased enough to offset the remaining portion of the deficit to attain the goal of 2 percent of GNP. Revenues have already decreased as a percentage of GNP from 20.9 percent in 1981 to 19.0 percent in 1983 and are projected to decrease to 18.3 percent by 1988. The Governors do not, however, endorse any specific revenue proposal.

Summary of Recommended Budget Guidelines

Under current policy the deficit over the 1984-1988 fiscal year period will total almost \$1.2 trillion which would approximately double the current federal debt outstanding. Under the NGA guidelines the deficits over this period would be reduced by \$332 billion, of which about \$169 billion would represent deficit reductions in non-defense programs and \$294 billion would represent a combination of national defense reductions or revenue increases. An additional \$69 billion would be saved over this period from lower interest costs from the deficit reductions. The NGA budget policy guidelines provide for a "downward glide path" to a deficit of approximately 2 percent of GNP by fiscal year 1988. This would leave a deficit of about \$90 billion in fiscal year 1988 which is a \$177 billion reduction from the baseline estimate for the deficit in that year. The year-to-year reductions and remaining deficits are shown below:

Deficit Reductions
(Billion of dollars by fiscal year)

	1984	1985	1986	1987	1988
Projected Deficits*	197	214	231	250	267
Total Deficit Reduction	27	77	114	137	177
Remaining Deficit	170	137	117	113	90

* These estimates do not include the \$15-20 billion in off-budget deficits.

FEDERAL ASSISTANCE TO STATE AND LOCAL GOVERNMENT—PROGRAMS CUT MORE THAN
\$50,000,000 FROM FISCAL YEAR 1983 TO FISCAL YEAR 1984

Program	Budget authority fiscal year 1981	Budget authority fiscal year 1982	Budget authority fiscal year 1983	Budget authority fiscal year 1984	Dollar differential 1984-83	Percent differential 1984-83
Community services administration.....	479.94	365.82	360.50	0.00	-360.50	-100.00
Older American program consolidation.....	1,039.93	1,006.15	1,054.00	998.00	-56.00	-5.31
Low-income energy assistance.....	1,714.30	1,875.00	1,975.00	1,300.00	-675.00	-34.17
Refugee assistance.....	901.65	689.07	585.00	485.33	-99.67	-17.03
General nutrition assistance block grant.....	766.45	678.70	758.90	535.00	-223.90	-29.50
Legal services.....	321.30	241.00	241.00	0.00	-241.00	-100.00
Juvenile justice.....	97.07	67.60	67.60	0.00	-67.60	-100.00
Vocational and adult education.....	781.64	742.00	823.66	500.00	-323.66	-39.29
Compensatory education for disadvantaged.....	3,112.00	3,040.98	3,167.89	3,013.97	-153.93	-4.85
Special program and Populations (incl. education block).....	535.40	536.88	534.50	478.88	-55.62	-10.40
Indian education programs.....	4.85	77.85	67.25	1.24	-66.00	-98.15
Education public libraries.....	84.16	80.08	80.32	0.00	-80.32	-100.00
CETA (employment and training pro- grams).....	7,142.97	2,983.66	3,789.30	3,643.33	-145.97	-3.85
U.I. operations.....	1,315.32	1,416.93	1,952.60	1,889.40	-63.20	-3.23
WIN.....	365.00	280.76	270.76	0.00	-270.76	-100.00
Urban mass transportation administra- tion.....	4,661.54	3,532.24	3,565.83	2,665.17	-900.67	-25.25
Urban development action grants.....	675.00	440.13	440.13	196.00	-244.13	-55.46
Appalachian regional commission.....	299.30	150.00	165.13	0.00	-165.13	-100.00
EDA economic development assistance.....	436.80	198.50	168.50	0.00	-168.50	-100.00
Water and waste disposal loans.....	750.00	375.00	375.00	250.00	-125.00	-33.33
Rural rental assistant contracts.....	0.00	398.00	123.70	62.00	-61.70	-49.87
EPA abatement, compliance, and con- trol.....	534.79	373.00	369.00	294.00	-75.00	-20.32
Energy conservation.....	430.02	145.80	279.29	74.38	-204.91	-73.36
Land and water conservation fund (in- cludes elimination of State program portion).....	287.69	133.46	142.41	54.67	-87.74	-61.61
Total.....	26,737.12	19,828.54	21,357.27	16,441.37	-4,915.90	-23.02

Selected means-tested entitlements:

AFDC—benefits and OCSE collections, proposed law changes in President's fiscal year 1984 budget.....	-732.00
Food stamps, proposed law changes in President's fiscal year 1984 budget.....	-766.00
Medicaid, proposed law changes in President's fiscal year 1984 budget.....	-300.00
Subtotal means-tested entitlements.....	-1,798.00
Total.....	-6,713.90
Unemployment benefits paid (declines primarily as a result of assumed lower unemployment).....	-6,000.00
Subsidized housing programs (presented separately due to long- term outlay impact).....	-8,165.17
Total.....	-20,879.07

Source: National Governors' Association, February 27, 1983.

[News Release]

NATIONAL GOVERNORS' ASSOCIATION

WASHINGTON, February 28.—Speaking before a panel of local officials and his fellow Governors on the State-Local Relations Committee, South Carolina Governor

Richard W. Riley today noted that Federal assistance to State and local programs is taking an inordinately large share of fiscal year 1984 Federal budget cuts.

He pointed to a list of 25 grant programs targeted to be cut by more than \$50 million in the President's 1984 budget. "These programs—such as low-income energy assistance, general nutrition block grants, refugee assistance and compensatory education for the disadvantaged—are some of the primary State-Federal efforts to assist the poor and needy," he said. "Other programs such as urban mass transportation grants, urban development action grants, economic development assistance and water and waste water disposal loans, are key to maintaining our increasingly vulnerable State-local infrastructure systems."

Proposed cuts in these 25 programs total \$5 billion—a cut of 23 percent over fiscal year 1983 budget authority levels. When these cuts are added to just three other significant programs, in AFDC, food stamps and medicaid, the total jumps to \$6.7 billion.

"States and localities are in no position to make up the difference in these programs," said Governor Riley, who chairs the State-Local Relations Committee. He noted a recent NGA-National Association of State Budget Officers survey that found 11 States are expecting deficits of nearly \$4 billion in the current fiscal year, and a recent Associated Press survey that showed 44 States are raising taxes to cope with the prolonged recession. Thanks to the recession, State revenues have fallen and demands have increased, he said. "Federal aid cuts in crucial State-local programs cannot be absorbed by States and localities without considerable dislocation and hardship."

The Governors are concerned about the size of the current and continuing deficit and will address the deficit and these cuts in the context of all budget issues, including defense, entitlements, and taxes. Governor Riley noted that all areas of the budget must bear their fair share of restraint "Domestic assistance programs, especially those for the needy, have already borne their fair share," he said.

The Committee on State-Local Relations will address these cuts plus the reauthorization of General Revenue Sharing and Community Development Block Grants. The committee is expected to: (1) Stand firm against additional cuts in State-Federal safety net programs; (2) continue its endorsement of general revenue sharing and CDBG; and (3) support the NGA policy statement for job creation initiatives, which calls for new funding via a flexible block grant.

[Whereupon, at 4:40 p.m., the task force was adjourned.]

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